MARKET FORECASTING GOOD BUSINESS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 6, 1948 — 75 CENTS

GOVERNMENT SPENDING

—*Key to the Business Outlook*

By E. A. KRAUSS

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HOW RETAINED CORPORAT[E] EARNINGS AFFECT DIVIDEN[D] PROSPECTS

By WARD GATES

★

SIX WELL-ENTRENCHED DIVIDEND PAYERS

Selected by our Staff

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and BUSINESS ANALYST

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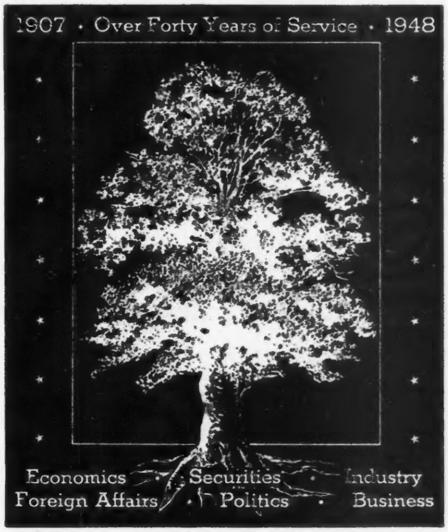
THE NATION'S MARKET PLACE

NEW YORK STOCK EXCHANGE

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

POST-ELECTION NOTE . . . National elections are always important, but this year more than ever. They may well turn out the most significant in our history, for the next president will certainly be faced with decisions that will affect the lives and welfare of almost everyone.

In one respect, however, the elections just held are no different from others. The recovery from "electionitis," the calm after the sound and fury of electioneering comes as just as welcome an anti-climax as ever. Now that the din of campaign oratory has subsided and the voters have had their say, the nation can relax and go back to work again. A great national decision has been made with reasonable absence of disturbance and in an atmosphere of freedom, and in these times of tension that's something to be thankful for.

The campaign was run along traditional lines and from past experiences we know that campaign promises and party platforms usually have limited practical meaning. Thus it is somewhat futile at this stage to speculate in detail just what the next administration may do in tackling the many domestic and foreign problems it will have to face. Along broader lines, however, certain developments can be foreseen.

In the foreign policy field we can expect things henceforth to move with greater dispatch and decision now that it is decided who will lead the nation during the next four years. This is important not only from our own standpoint but from that of foreign nations as well, whether friendly or otherwise. Uncertainty in this respect has doubtless slowed action on the foreign political front in recent months—on either side, we think—and held in abeyance decisions that otherwise may well have been made. It has particularly affected the proceedings at Paris, and doubtless has been a consideration of sorts even with the Kremlin. Our own Paris delegation pursued a policy of "no boat rocking" before the elections. With the latter out of the way, we are now in a position to approach more aggressively the responsibilities and opportunities of world leadership. Perhaps we shall now learn more about what's going on in Europe, shall be in a position to contribute to a fair and reasonable settlement of the Palestine problem, and shall generally be able to pursue a diplomacy more wise and resolute than before, one that may still render possible peaceful solution of the many grave problems that have darkened the postwar skies.

Domestically many issues hanging fire will now be headed for clarification and quick action, we hope. A stack of vital legislation held over pending the election outcome will come up for early congressional consideration. Re-armament is likely to be speeded up and discussion of a revived lend-lease program should quickly reach the active stage. And the great and crucial question of negotiating a formal defensive pact with the free nations of Europe, constituting a radical departure in American foreign policy, can hardly be put off much longer.

In line with the needs of the day, business should be able to look forward to a more sympathetic attitude by Government. We may even anticipate some measure of Government economy, though in present circumstances this can hardly go far enough to justify lower taxes. Real tax revision must continue to be viewed as a desirable objective for the more distant future.

But generally, on purely domestic issues, the outlook is for progressive, even liberal action along most lines, born of proper insight and understanding not only of these issues themselves but of popular senti-

ment as revealed during the campaign. In this respect, the campaign just ended has doubtless helped to clear the air in many ways.

THE DEPRECIATION PROBLEM . . . There have been three interesting developments recently in connection with the important question of what constitute adequate depreciation charges under today's conditions, and methods of handling the problem.

The Committee on Accounting Procedure of the American Institute of Accountants—four of its 21 members dissenting—recently came out against any change in present basic depreciation accounting methods, suggesting that accounting and financial reporting for general use will best be served by adhering to generally accepted concepts pending further study of the nature and concept of business income. For the present, the Committee thought it adequate if corporations give supplementary information on increased replacement costs in their reports.

Apparently in support of this attitude, the SEC declared that it will continue to oppose corporate accounting practices which it believes understate earnings. It opined that corporate statements should not show net income after accelerated depreciation charges based on replacement costs; instead it recommended that corporate accountants should calculate net income first, then make appropriations out of surplus for such deductions as necessary.

U. S. Steel Corporation in reporting on third quarter operations revealed sharply increased special charges for replacement of plant, to the tune of $13.5 million for the third quarter or equal to $1.55 a share, by advancing its additional charge for wear and exhaustion of facilities from 30% to 60% of the depreciation based on original cost. In justifying this action, chairman Olds explained that the continued increase in the cost of goods and facilities during 1948 demonstrated that previous depreciation charges "were not sufficient to cover the true cost" of property being consumed. The higher charge was made effective January 1, 1948; the net result was to increase depreciation deductions for the first nine months by some $39.7 million, reducing earnings for the period to $7.94 per share compared to $9.01 for the same period in 1947. This example and these figures are cited to illuminate the importance of the problem to stockholders. Their stake in the handling of the problem is no smaller than that of any corporation and "Big Steel," by placing realism above accounting conventions, has contributed to bringing the problem to public attention.

It is obvious that depreciation reserves based on prewar costs are insufficient to fulfill their function —that is to preserve capital investment by replacing worn-out or obsolete equipment and facilities. This makes it necessary, in order to maintain capital investment, that an adequate part of currently large corporate profits be earmarked to bolster inadequate depreciation reserves. One of the controversial points is how to report earnings so that stockholders, workers and consumers will understand that this part of profits cannot be available for dividends, wage rises or price cuts. It is a question that is at the root of many of today's misunderstandings, not the least in the negotiation of wage contracts. To refer again to U. S. Steel, one wonders whether the public would have recognized the impact of higher replacement costs, had nine months profits been reported as $12.50 per share instead of $7.94 per share actually shown after the more realistic allowance for depreciation.

Another important aspect is that of taxation. Depreciation is a recognized cost of doing business but the tax collector recognizes only depreciation based on original cost. Since this is inadequate under today's conditions, corporations which providently set aside additional sums out of income are in effect being taxed on capital to the extent of the difference between original and replacement cost. This hurts the corporations, but also the stockholder, leaving less for dividends which on top of everything are also double-taxed.

To arrive at a fair solution of this difficult problem is not simple, though an easing of the tax laws regarding depreciation suggests itself as the most ready remedy. It is up to the tax authorities and business to work out a practical formula. Meanwhile stockholders will do well to reflect on all the aspects of the depreciation problem which, while not new, is certainly getting more acute because of inflation and high taxes. The broad public concept that profits are profits today requires modification, and explanation of profits is certainly in order. Overstatement of earnings through use of original instead of replacement costs as a base for depreciation charges can do considerable harm by inviting misleading conclusions about a company's true financial position.

THE FOREIGN TRADE GAP . . . August foreign trade figures reveal a continuation of the shrinkage in our foreign trade "gap", the term often applied to the abnormally one-sided condition of our trade with the rest of the world. This excess of exports over imports has been declining for over a year as exports have been falling off and imports increasing fairly rapidly and consistently. Thus in August, our shipments abroad amounted to $988 million compared to $1,150 million a year earlier; while our imports from abroad rose to $598 million from $399 million in August 1947. The excess of exports thus narrowed from $751 million last year to $390 million for the latest period.

While these shifts may mean for us less foreign business and more foreign competition, they nevertheless constitute a welcome corrective development, at the same time reflecting a decided improvement of the economic situation abroad. Still it seems probable that the downtrend of our exports may soon be reversed. Our foreign aid programs are only now getting into their strides and the beginning of large-scale ECA shipments in August prevented an otherwise even more notable falling off in our exports during the month. The foreign trade gap, in other words, is likely to widen again, though hardly to former proportions.

Those who are apt to deplore the decline in our export trade will do well to consider that a goodly part of it in the past was financed by loans and grants, and will continue to be so financed in the future. It would be easy for us to enjoy an indefinite export boom, were we ready to continue this practice (in other words pay ourselves for it), or else were we prepared to accept in payment a vastly greater volume of foreign goods—to compete with our own production. It stands (*Continued on page* 154)

As I See It!

BY ROBERT GUISE

DEBACLE IN MANCHURIA

While world attention in recent weeks has been anxiously focused on developments in Paris and Berlin, hoping against hope for signs of a possible settlement of outstanding East-West issues, the alarming communist successes against Chinese Nationalist forces in Manchuria have shown anew that the struggle against communism is indeed worldwide and that none of its far-flung fronts can be ignored without jeopardizing the outcome of the struggle as a whole.

At this writing, Manchuria seems to be definitely lost to the Chinese Government. Much of it of course was lost months ago, with the present withdrawal merely a belated acceptance of the inevitable. As it is, the Chinese communists now have made a clean sweep of the campaign they began on VJ-Day; they control some 400,000 square miles and find open the way for the establishment of an "independent" government along the lines of the accepted communist pattern.

Week after week, the communist armies have captured one nationalist stronghold after another, with progressive disintegration of nationalist military power and morale, and with huge losses of American - supplied arms and ammunitions. Thus it is reported that in the last six weeks, some 250,000 nationalist troops have surrendered or joined the communists, and the number may be much larger now. Subsequent setbacks have virtually assured a complete collapse. Obviously it is a situation that calls for a complete overhauling of our own policies toward China.

There are a number of causes for the disaster. The Soviet Union, after stripping Manchuria of its industrial machinery, arranged the evacuation of Russian troops in such a way that Chinese communists could seize not only territory but large quantities of Japanese arms. Another was that the Chinese Reds did their utmost in Manchuria to gain control of rural areas and organize the peasants, while government forces were usually content to remain in cities and along the railroad lines. A third undoubtedly was the incompetence of the Nationalist generals and public officials sent to Manchuria to assert the authority of Nanking. The debacle in Manchuria thus cannot be solely blamed on Russian imperialism; it was made possible also by the errors of the Chinese Nationalist Government. As a result there is now the question how long the Nationalist Government can last, whether the usefulness of Chiang Kai-shek is not hopelessly impaired. The gloomy fact is that not only is Manchuria lost but all of North China threatened. In the event of further setbacks, a dramatic turning point in China's history appears inevitable. More and more, it seems that the civil war that has lasted so many years, may finally have been won by the forces of communism.

"HEY! LOOK BACK HERE!"

Smith in the Lancaster Intelligence Journal

In Manchuria the Chinese Government has lost a region with greater industrial resources than any other in East Asia; it could have been a source of strength of first importance. Even under the most favorable circumstances, however, it can hardly be regained soon, if at all. Another military campaign is not advisable until the communists are cleared out of North China first, where they have been growing steadily stronger.

What can be done, then, to save the situation? Chiang Kai-shek's remedy is a familiar one: Aid to China. It was a persuasive argument in the past, and caused us to sink many hundreds of millions into China without notable results. Perhaps it was a question of too little and too late, but this is open to doubt. Washington quarters reject the idea that lack of more supplies has been responsible for the latest debacle. Rather they point to poor morale and poor leadership, the existence of which can hardly be disputed.

Chiang Kai-shek's most important problem, it seems to us, is to gain the support of the Chinese people for resistance to the communists. So far Nationalist China has not been able to develop the strength, leadership, and coordination between army and the people to save herself. American aid alone can be no substitute for policies and principles and the leadership which will find mass response among the Chinese people. If the (*Please turn to page* 154)

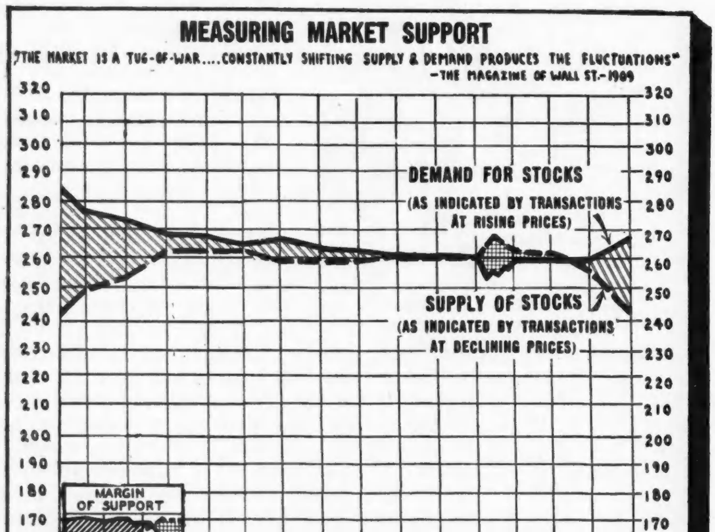
Market Forecasting Good Business

Barring seriously unsettling foreign news, we do not look for more than normal technical reactions any time soon. There does not appear to be much chance for a business recession of real significance, if any, in 1949; and the change in political climate is basically favorable. However, we would defer any general buying for a while longer.

By A. T. MILLER

The market gained a little ground on balance during the fortnight since our last previous analysis was written, despite the fact that it was under moderate selling pressure during most of last week. This is to say that it has so far given up less on corrective recession — the first such pause of more than one to two days' duration since the upswing started from the September 27 low — than it gained in the single trading week ended October 23.

The maximum rise to date has not been spectacular in scope, amounting only to about 8% for the Dow-Jones industrial average, or in the volume of transactions involved. In these respects the move has been so moderate that it could hardly of itself impair the underlying technical position importantly. However, technical vulnerability is one thing, and its apparent absence is only a negative favorable consideration; while a dynamically favorable balance between the demand for stocks and the supply for sale is something else again, for without it the immediate potentials will be limited.

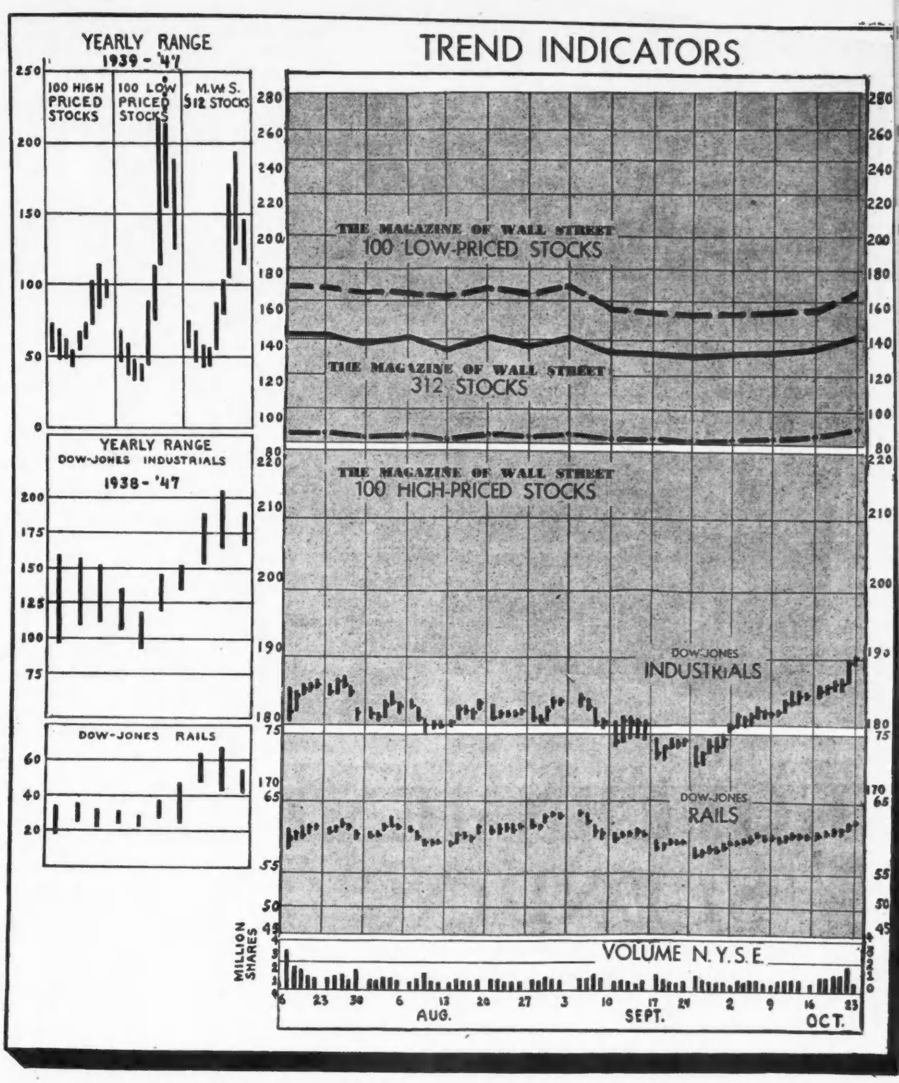


Short-Term Outlook Indeterminate

There has been nothing in the news to check the market rise. What has checked it, at least for the time being, are reasons within the market itself. It has been a market of limited swings, without a sustained major trend, for more than two years; and everybody knows it. Hence, when the industrial average works back close to the top of the previously indicated range, as it recently did, demand slackens as investors decide to wait and "take another look"; and selling increases. Probably that is pretty much the story of the past week, following a fairly sharp upward spurt which toward the end of the preceding week (October 22-23) had taken the industrial average up to 190.19, compared with a high last June of 193.16, and with the 1947 trading-range high of 186.85.

And there is more than a question of trading-range involved. The market looks "fairly high" around 190, at least in the eyes of those who are impressed — probably over-impressed — by straight historical comparisons. The 1937 bull-market peak was roughly 194; that of 1946 roughly 212. In other words, not since 1930 — when the market was sliding down from the monumental 1929 top of 381 — has the industrial average been above its recent rally high, with the exceptions of 1937 and 1946. The psychology arising from such comparisons, which hit the eye on any long-term chart, also has worked to check the market rise in this instance.

Probably it would take a considerable effort for the market to rise appreciably above the June, 1948 high of 193 unless special stimulus were provided by some surprising piece of good news — startling enough to evoke real enthusiasm. (The election, coming a day after we go to press with this issue, is not such news, for the outcome, with the exception of Senate control, had been accepted as pretty much of a foregone conclusion.)



This effort may or may not be made; and, if made, it might or might not succeed. There is no basis for an opinion whether the market will churn around for a time, within the close vicinity of the recent rally high, making repeated tries to get going again; or whether it will drift down into a fairly sizable correction. On last week's very mild recession daily volume (for 5-hour sessions) fell to 860,000 shares from a high of 1,800,000 shares on the upside day of October 22. It could be argued that this tendency is bullish, and it might well be; but as a guide in market analysis the volume indications often are not as prophetic as they are cracked up to be and that is especially so in trading-range markets.

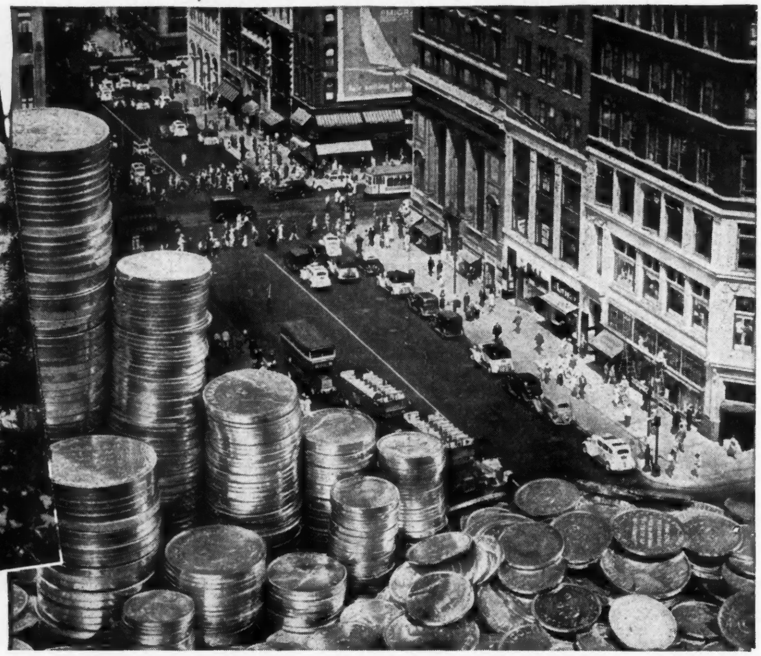
During the last two years volume has' been relatively large only in "blow-off" periods — in both buying and selling climaxes. The indications have been of little use in quiet markets. Thus, during the first several weeks of the decline from the high of last June, the market drifted down slowly on low volume, without looking significantly weak; yet before that swing culminated it took the industrial average down over 17 points.

It has been an uncommonly selective rise — much more so than that of last March-June. The rails have been sluggish, the first time this has been so on such a swing in a great many months. The utilities have also been sluggish, although that is not new. The action of the industrial average has dominated, but within the industrial list as a whole the group picture has been very spotty. The strongest groups have been steels, metals, aircraft, brewing stocks, automobiles, oils, baking and milling stocks, cement stocks and tires. There is no common "theme" here; but it can be noted with rare exceptions, stocks in soft-goods industries are relatively out of favor. Greatest confidence attaches to stocks in durable-goods industries in general, where the supply-demand outlook is favorable for an extended time to come; and, coincidentally or additionally, to those in industries which will be chief beneficiaries of the prospective increase in Federal armaments spending. Thus, the chief divergences within the market seem to have a valid economic basis.

Business Outlook Favorable

Economic activity continues to hold around peak levels, so far taking piecemeal adjustments — as in foods and some textiles — in stride. It now appears that any decline in private capital outlays next year will be fairly small, with a good chance that it will be offset by rising public expenditures — Federal, state and local — and by some further increase in consumer spending, for total personal income is still rising. We do not see a basis for a revival of investment fears or skepticism about the general business outlook, such as caused the industrial average to slump to the vicinity of 165 early last spring and which, in conjunction with overdone war fears, caused the June-September sag from 193 to about 176. Although a real settlement in Europe seems about as distant as ever, investors ought to be able to get used to the cold war; and conviction may grow that it is likely to be played to its eventual conclusion without either side forcing a military showdown.

In this view reactions over the relatively near future are likely to be of moderate scope and may well provide buying opportunities in selected stocks. What is required to take the market above the June high — perhaps eventually above the 1946 high — is a general revival of confidence in the future. We do not know that this (*Please turn to page* 154)

Huge defense budgets raise basic problems. Together with foreign aid and probable revival of lend-lease, such outlays approach the limit of what the U. S. can provide under a peace-time economy.

GOVERNMENT SPENDING

— KEY TO BUSINESS OUTLOOK

By E. A. KRAUSS

There is every indication that Government spending will not only determine the economic trend and set the pattern of business in the year ahead; but also that on balance, such spending will be heavy enough to offset or outweigh any contracting tendencies in our economy as 1949 unfolds.

Considerations of this sort doubtless underlie the generally more optimistic views currently held about business prospects, in contrast with the uncertainty, if not pessimism, prevalent only a few months ago. The change in sentiment appears well founded though naturally, actual business impacts of Government spending can hardly be appraised with accuracy pending clearer indications of its scope and direction. Behind it all is of course the need to build up our military strength and that of the western nations, a factor that is not likely to vanish from the scene either suddenly or soon despite day-to-day variations in the international outlook picture. Few observers are optimistic enough to anticipate any early basic improvement sufficient to warrant a change in policy on our part; and while this factor operates, it should go far toward upholding overall business at a high level.

Just how much Government spending appears in the offing? Congress of course will have the final say, but recently published figures give a fairly good idea of what to expect. The Armed Forces have wanted military spending (for our own rearmament) raised to $20 billion and higher to provide "adequate security," apart from any future exports of arms to European countries under a new type of lend-lease system currently discussed and likely to be put up to Congress at the next session.

President Truman has countered with the proposition that defense spending during the next fiscal year should not exceed a maximum of $15 billion, a figure that may or may not stand in the light of future political developments. For the current fiscal year, direct military expenditures will total some $13.5 billion; however they may increase substantially thereafter and the military's goal of $20 billion may well be realized.

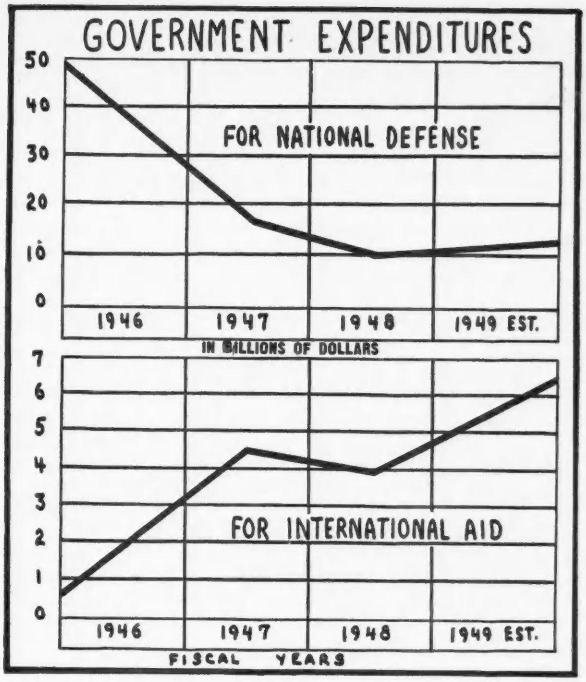
ECA Shifting Into High Gear

ECA, now getting into high gear, will lift the total still higher, what with existing appropriations of some $5.5 billion and with already authorized expenditures at the $2.5 billion mark. Lend-lease to Europe, if and when it comes, might add another $2.5 billion. All of which might well add up to some $22 billion, or roughly one half of anticipated total budgetary expenditures.

The latter are equally impressive. Total Federal expenditures are currently running at an annual rate of $43 billion, a record peace-time figure. Predictions are that next January's budget for the 1950 fiscal year may total between $45 billion and $50 billion, depending on actual arms outlays. Needless to say, spending on such a scale means the injection of a great deal of purchasing power into

our economy, making Government spending an important factor in our economic life.

It will not only act as a cushion against any serious letdown in business; it may perhaps even halt if not reverse the deflationary trends that have developed, piecemeal, in various fields where maladjustment existed between top-heavy supplies and lagging demand. True, on the latter point one can be far from certain at this time, but it is well within the realm of possibility especially if defense outlays further expand.



Significance of Projected Spending

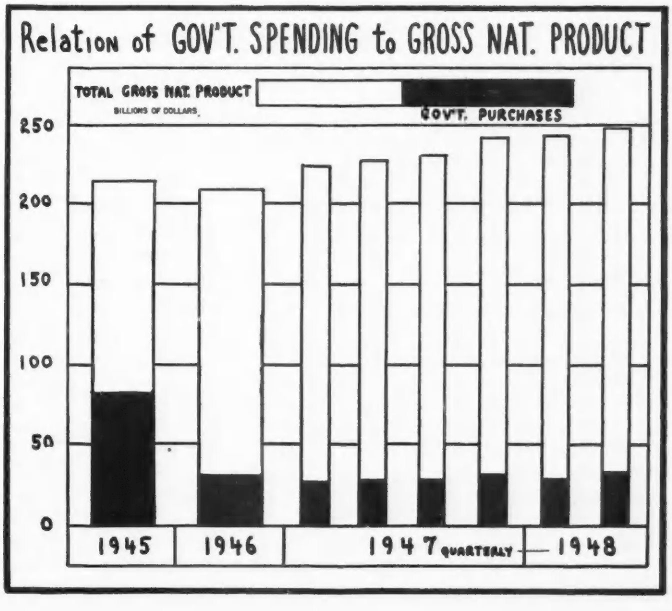
A few comparisons will illustrate the significance of the figures cited. Government purchases of goods and services in 1946, first full postwar peace year but still under the influence of heavy military outlays, were $30.8 billion. During the second quarter of 1947, they reached their postwar low with an annual rate of $27.6 billion. Since then they have risen progressively and during the second quarter of 1948 reached a new high annual rate of $32.1 billion or about 13% of total gross national product of an estimated $248 billion annual rate. Total *budgetary* outlays currently amount to some 17% of total gross national product compared to about 8% in 1939. Government spending as a business factor, in other words, has about doubled in significance on a dollar basis; much more so of course in other respects.

Though views on the overall business outlook are once more veering to the optimistic side, opinions remain sharply divided as to just what stepped-up rearmament will do to individual industries. Clarification depends primarily on Congress, first in the matter of overall spending, and second in the matter of restoring of controls.

As to the first point, we may take it for granted that substantial armament spending is assured (in view of its political and military necessity) regardless of how economy-minded in other respects the next administration and congress may be. The figures so far projected look fairly realistic, if not conservative, in gauging this potential.

As to the second point, there is mounting conviction that actual spending on anything like the projected scale (it has barely started) is bound to call for some sort of controls, voluntary or involuntary, with possibly incisive impacts on civilian business. A case in point are the voluntary steel allocations currently in force which threaten a material tightening of the steel supply for civilian users. Actual extent of controls won't be decided until the full scope of the program is determined. But a large military program, with lend-lease superimposed, will probably mean limited industrial mobilization, the return to a semi-war economy to the detriment of numerous less essential fields; but every kind of business might eventually be affected. Those not receiving direct defense or lend-lease orders will find materials, equipment, even manpower for civilian production in tighter supply, which in turn would almost automatically call for allocations of critical materials, perhaps even for steps to hold down prices.

Still it is difficult at this time to measure exactly the amount of slack that would develop in our economy if there were no rearmament; thus it is equally difficult to estimate to what extent we can re-arm, and help others to do so, without impinging seriously on civilian production. It may do no more than take up the slack, creating relatively few tight situations such as in steel and copper. Then again it may do more than that, causing a tightening all around with more incisive repercussions. But on the whole there is now considerable assurance that business on hand or in sight will support the present rate of economic activity for months to come, possibly even a higher rate if the supply of labor and materials would permit which is unlikely.



ECA Procurement Authorizations Arranged by Commodity Groups

Europe—	
Food and Agriculture—	
Wheat	$356,175,331
Wheat Flour	113,775,611
Rye	2,145,949
Coarse Grains and Products	23,802,536
Rice	837,730
Other Grain Preparations	3,117,611
Meats	65,213,976
Dairy Products	45,416,501
Eggs	1,802,375
Fats and Oils (Including Oilseeds)	95,511,367
Vegetables and Preparations	14,672,567
Fruits and Nuts, Except Peanuts	12,858,862
Sugar and Related Products	13,728,200
Miscellaneous Food Products	8,874,800
Cotton	123,235,280
Tobacco	36,308,800
Oilcake and Meal and Other Feeds and Fodders, N. E. C.	17,930,800
Fertilizers and Fertilizer Materials	22,398,499
Miscellaneous Agricultural Products	9,319,053
Total Food and Agriculture	$967,125,848
Industry—	
Chemicals and Related Products	$31,956,951
Hides, Skins, and Leather	18,013,945
Lumber and Sawmill Products	25,399,715
Pulp and Paper	20,714,490
Coal and Related Fuel	150,513,751
Petroleum and Products	175,838,096
Fabricated Basic Textiles	22,203,876
Nonferrous Metals	128,201,784
Nonmetallic Minerals	7,591,805
Metallic Ores and Concentrates	7,932,100
Iron and Steel Mill Products—	
Primary	34,584,932
Advanced	8,305,911
Iron and Steel Finished Manufactures	2,008,554
Machinery	43,082,606
Vehicles and Equipment	62,454,685
Miscellaneous Industrial Commodities	10,220,226
Total Industry	$749,023,427
Total Commodities	$1,716,149,275
Technical Services	$ 1,065,000
Ocean Freight	245,992,360
Projects—Reconstruction Program for Greece	8,100,000
Total Europe	$1,971,306,635
China—	
Food and Agriculture—	
Wheat Flour	$ 2,158,738
Rice	16,582,195
Cotton	54,700,000
Fertilizer	1,189,000
Technical Services	75,000
Petroleum Products	7,999,999
Ocean Freight	1,362,173
Total China	$ 84,067,105
Total, All Countries	$2,055,373,740

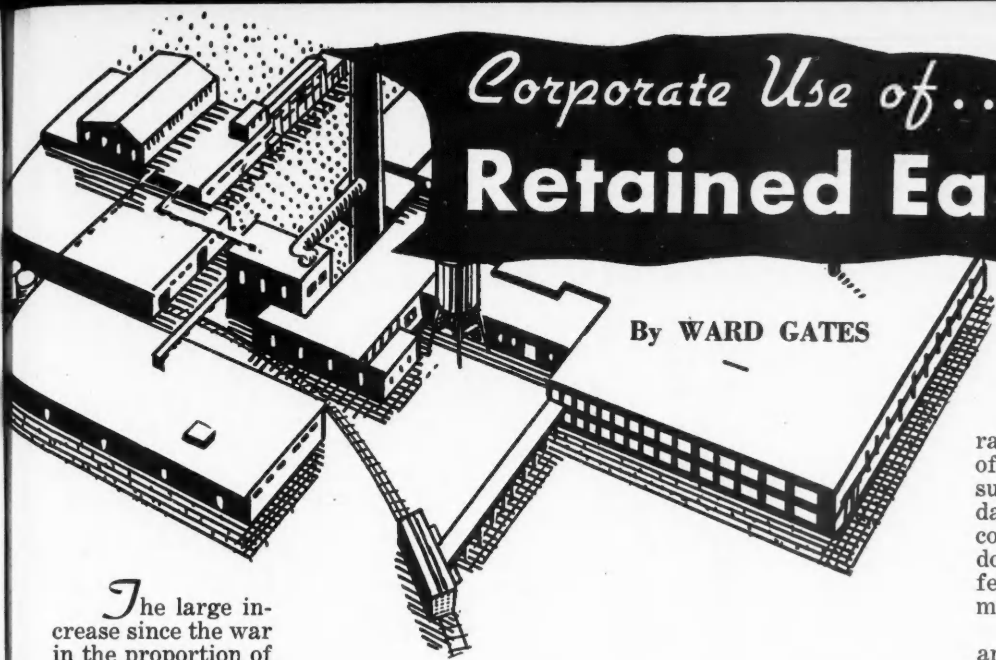
Were it not for Government spending, the postwar boom would have passed its peak some time ago and deflation would have progressed considerably beyond the initial stages reflected by the scattered weak spots in our economy and declining commodity prices. Rearmament will buttress anew the boom's foundations, but there is no assurance that piecemeal adjustment cannot continue if defense outlays stay within contemplated limits. One factor to consider is that the bulk of armament orders, and even more so of lend-lease orders, will come too late to reverse the adjustment trend at an early date. There is always a sizeable gap between appropriations, and the placing and execution of orders. Pending the latter, the forces operative in any given field are likely to continue to exert themselves. Only tightening supply due to pre-emption of production or materials for Government purposes will halt or reverse the corrective process, setting in motion chain reactions that may ultimately result in renewed upward pressure on prices, or at least in slowing the rate of decline in price levels.

Official hope at present is that some billions of dollars in arms annually could be lend-leased to Europe on top of our own preparedness program without the need of restoring wartime controls. Some are frankly uncertain on this point. But all agree that a $15 billion defense budget would appear unrealistic in the event of any deepening of the international crisis which would send the military running for permission to crash through the ceiling budget. Foreign events thus will continue to have a direct bearing on the outlook. That $15 billion ceiling incidentally includes $600 million for stockpiling strategic raw materials, which may further tighten the supply of many vital materials for civilian consumption.

As matters now stand, Russia's conduct bids fair to result in a definite "slump deferment;" our countermoves can be relied upon to keep business, employment and purchasing power at high levels. The same goes for corporate profits (barring new taxes). Some corporations which cautiously packed away substantial reserves in anticipation of a slump in trade or prices may now be disposed to more liberal dividends in anticipation of stable business ahead. Speaking of taxes, prospects of tax reduction appear quite slim in view of the new budgetary demands which will make it difficult enough to balance the budget. We shall be fortunate if we escape higher taxes, once armament spending really goes into high gear, if only to offset its inflationary effects.

Integration of ECA and Lend-Lease

Revival of lend-lease may be still months away. Not only must it await congressional approval but will require considerable technical preparations and discussions before any program can be effectuated. Most likely any such program will be carefully balanced with ECA assistance, meaning that for strictly civilian purposes, the Marshall Plan countries would get less money, but in the aggregate they would get more. As it is, arms shipments by law cannot be included in ECA aid. Perhaps something like this was in the mind of ECA director Hoffman when he recently forecast possible slashes in next year's ECA appropriations "because of the progress already made by the aided countries." He failed to say, however, in what (*Please turn to page* 146)



Corporate Use of.... Retained Earnings

By WARD GATES

The large increase since the war in the proportion of corporate earnings withheld from shareholders, and retained for various business needs, has sharpened the distinction between a corporation and its owners. Although in years past certain legal distinctions have been recognized between a business operated in the corporate form, and the people who held its stock, the two interests were considered as almost identical. This was because earnings of the corporate vehicle were to a major extent passed on currently to its owners, whose income thus fluctuated with the cycle of business prosperity.

Now, by contrast, we have widespread instances where corporate earnings have soared to new high levels, yet shareholders have benefitted hardly at all. The paradox is not uncommon where business is so good that the companies have cut their dividend rates. Numerous concerns have taken pains to explain that dividends continue low because of the heavy demand for funds to finance plant modernization and expansion programs, as well as to carry larger inventories and receivables, and to set up special reserves.

It has been pointed out that the raising of new equity capital is difficult under the present money market conditions and high personal income taxes, and that excessive increases in debt would be dangerous; therefore, that the financing of cash requirements by retained earnings is to the best interests of the company and its shareholders alike. Where, one might ask, could the shareholder invest his portion of the earnings to obtain as high a rate as by leaving it with the corporation?

These arguments are no doubt justified, considering business in general and the vast sums of new money that have been absorbed in improving plant facilities, and financing a record volume of production upon an inflationary trend of wages and prices. They call, however, for a somewhat new investment approach, as well as new methods of analysis.

The new investment approach is a recognition that, although a company may be making lots of money, its owners are getting relatively little of it. This means that the traditional "price-earnings ratios" have lost some of their significance. It suggests why, nowadays, an increase in corporate earnings seldom has a buoyant effect upon an indifferent market.

The new investment analysis must consider not only earnings, but the uses to which the company puts the major portion not paid in dividends. In what assets is the money being absorbed, and how wisely? Is the company's plant expansion program now complete, or has it further ambitious plans?

Does the company's management have a reluctance to turn over the earnings to "mere shareholders," and a preference to use them for buying up smaller concerns, thereby extending the management's scope, power, and salaries? Are big dividend increases or "melons" to be forthcoming from the large accumulated surpluses, if the shareholders will but hold on patiently?

As background for an examination of recent trends, the accompanying summary shows the long-term relationship between net income and dividend payments of all U. S. corporations. Due to space limitations, the table is condensed to show only ten-year averages prior to 1941.

It will be seen that in the ten years 1911-20, about 52% of corporate net income was paid out in dividends. In the period 1921-30, earnings were higher, and the proportion paid out was 81%. In 1931-40, earnings dropped to a low level and there were deficits in three years, so that dividends were almost four times the net income.

From 1941 to 1945, inclusive, dividends averaged 52% of earnings, but since then, based upon the latest official estimates, the proportion has declined steadily to only 37% in 1948.

The Over-All Picture

Also as background material for our analysis of representative companies, it should be kept in mind that the general business picture continues to show a high level of activity and earnings. Industrial reports now being issued for the third quarter show in most cases that both sales and net income were moderately higher than in the second quarter, and materially higher than in the third quarter of 1947.

Most of the gain in these dollar figures reflects of course merely the advance in prices, rather than

Uses and Sources of Corporate Funds in 1947

(In Billions of Dollars)

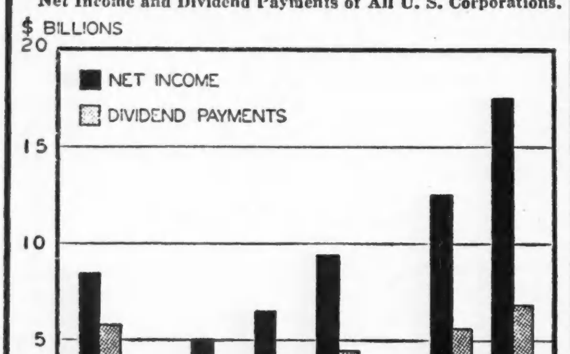
Uses	Total	Per Cent
Plant and Equipment	$14.7	55.1
Inventories	6.7	25.1
Receivables, etc.	5.3	19.8
Total	$26.7	100.0
Sources		
Retained Net Income	10.1	37.8
Depreciation	4.3	16.1
Cash and Deposits	—1.0	—3.7
U. S. Government Securities	1.5	5.6
Payables, etc.	1.7	6.4
Income Tax Liability	2.3	8.6
Bank Loans	3.0	11.2
Mortgage Loans	0.7	2.6
New Security Issues:		
Capital Stock	1.3	4.9
Bonds and Notes	2.8	10.5
Total	$26.7	100.0

increases in physical units of production. There are welcome indications, however, that prices are now stabilizing, and that the price-weakness in farm products, processed foods, and more recently textiles, will in the course of time spread to other non-agricultural products. There are signs also of a stabilizing in wage rates.

Such developments would tend to counterbalance the inflationary forces, such as the credit expansion resulting from bank and insurance company loans, the heavy Treasury outlays on commodity loans and purchases for crop price support, and the increasing exports in the European Air program now moving into high gear.

It is significant that the consensus of business forecasts has turned more favorable with the approach of elections and the new year, with the outlook considered good well into 1949. This is the result of greater price stability, more steel and other raw materials being available for the industries, and the continued heavy backlogs of unfilled orders.

Net Income and Dividend Payments of All U. S. Corporations.



In 1946 and 1947, the heavy demands for corporate funds from retained earnings and other sources were concentrated upon plant expansion and modernization, which absorbed more than half of the total, with the remainder divided about equally between inventories and receivables. The accompanying table, based upon a Department of Commerce study, shows for all U. S. corporations the uses and sources of funds last year.

Shift in Use of Corporate Funds

Another comprehensive study, appearing in the Federal Reserve Bulletin of June 1948, showed that the proportion of funds used in 1946-47 for plant expansion to the grand total of funds used (including those applied to debt repayment) ranged as follows in ten major manufacturing industries: Petroleum 75%, iron and steel 66%, chemicals 62%, food 37%, nonferrous metals 37%, automobiles 36%, machinery and electrical equipment 35%, rubber 33%, other transportation equipment 15%, and tobacco 11%. For retail trade, the proportion of funds used on plant was only 24%, but for electric and gas utilities it was 80%, for communication 74%, and for railroads 51%.

This year, as expected, there has been a decided shift in the uses of corporate funds, with a falling off in expenditures on plant and equipment as the postwar modernization programs become completed. This does not mean that new money will not still be needed for growth and improvements, but that it will be in most instances of only limited amount, and can be largely provided for "internally" from depreciation reserves.

There has been, however, a further demand this year for funds to carry the larger dollar inventories needed to handle the record volume of production at advancing prices, and a consequent increase in funds tied up in accounts and notes receivable.

In addition, many companies have this year set aside from earnings special reserves for general contingencies, or for specific purposes such as possible inventory decline or high-cost replacement of fixed assets.

What Our Sample Shows

The accompanying tabulation of thirty representative manufacturing and trade companies, based upon their statements for the latest fiscal year, shows the highly uneven pattern in both dividend policy and use of retained earnings. This group had combined net income of approximately $983 million, of which $375 million or only 38% was paid out in common dividends. There was retained, after payment of $47 million preferred dividends, the sum of $551 million, or 56% of total net income.

It will be seen that the percentage of earnings paid in common dividends, shown in the third column of the table, varied widely. At the top, paying out over 50%, are Reynolds Tobacco, and American Tobacco. Paying 40-50% are Allied Stores, General Motors, Johns-Manville, and May Department Stores.

In the middle ground were 15 companies, or one-half of the total, paying 30-40%. Payments ranged 20-30% for Celanese Corporation, Dow Chemical, Firestone Tire, B. F. Goodrich, Houston Oil, International Paper, and Pacific Mills. Only 10-20% was paid by Celotex Corporation, and Skelly Oil. Many

Breakdown of Net Income, Dividends, and Uses of Retained Profits

	Net Income*	Common Divs. Paid	Dividends As % of Net Inc.	Retained Earnings	Retained Earnings Were Used in Part to Increase: Special Reserves	Inven-tories	Accounts Receivable	Fixed Assets	Surplus Account
	—$ million—		%	—$ million—	—$ million—				
Allied Stores	$13.6	$ 6.2	45.4%	$ 6.4	$ .1	......	$ 8.7	$11.7	$ 6.5
American Tobacco	33.8	17.7	52.1	12.9	......	$76.1	7.2	10.3	13.0
Bethlehem Steel	51.1	17.9	35.0	26.6	......	11.9	34.5	64.9	26.4
Bigelow-Sanford	3.4	1.2	35.4	2.1	.4	1.3	2.0	.8	2.0
Borg-Warner	24.5	7.9	32.3	15.9	5.1	9.6	8.4	5.0	11.4
Celotex	6.2	.9	14.5	5.0	......	.7	1.5	8.6	4.6
Cluett Peabody	5.3	2.1	39.6	2.9	......	11.7	2.9	1.7	2.8
Celanese Corp.	24.2	7.2	29.8	13.9	.1	6.9	3.9	32.3	11.3
Chrysler Corp.	67.2	25.0	37.2	42.2	......	5.3	15.4	18.3	42.2
Cannon Mills	15.1	5.2	34.5	9.9	......	4.0	......	.7	......
Dow Chemical	21.0	4.9	23.3	13.6	......	4.0	7.7	35.1	......
Firestone Tire & Rubber	26.9	7.8	29.0	18.5	......	24.1	7.8	11.8	16.8
Flintkote	7.8	2.4	30.7	5.0	......	1.0	1.3	7.0	5.0
General Mills	13.1	4.5	34.4	7.1	......	......	3.2	9.1	7.1
General Motors	288.0	132.2	45.8	142.9	15.1	143.5	66.0	114.9	142.9
Goodrich, B. F.	23.2	6.5	28.0	14.6	5.6	10.4	7.0	12.1	......
Goodyear Tire & Rubber	25.5	8.2	32.1	14.3	9.0	47.6	......	20.8	14.3
Gulf Oil	95.5	31.7	33.2	63.7	......	25.4	27.7	91.7	63.8
Hercules Powder	12.9	5.2	37.4	7.2	......	18.2	......	8.0	7.2
Houston Oil	4.0	1.1	27.5	2.9	......	.3	.5	.5	3.0
International Business Machines	23.5	8.6	36.5	14.9	......	1.0	1.7	21.3	14.4
International Paper	54.4	14.2	26.1	27.2	12.0	9.8	4.5	12.9	27.2
Johns-Manville	9.5	3.9	41.0	5.2	......	3.3	3.9	20.1	5.3
May Department Stores	17.2	8.1	47.0	8.0	......	......	5.3	6.6	12.2
National Cash Register	11.3	4.0	35.4	7.3	1.5	7.6	13.0	7.9	7.2
National Steel	26.8	8.9	33.2	17.9	1.0	6.7	5.7	21.8	17.9
Pacific Mills	8.4	2.5	29.7	4.3	1.9	7.5	.4	3.4	4.3
Reynolds Tobacco	32.1	20.0	62.3	10.4	......	65.3	2.9	6.1	10.4
Skelly Oil	21.1	2.5	11.8	18.6	......	4.4	5.0	13.4	28.6
U. S. Gypsum	16.5	6.4	38.7	9.6	......	1.2	3.7	24.0	25.5

*—For latest annual or fiscal year available.

of these companies might later, if desired, pay out considerably more.

There was an absorption of capital, as shown by columns 5-8 in the table, of $603 million for fixed assets, $509 million for inventories, $252 million for receivables, and $52 million for special reserves. This adds up to $1,416 million, against an increase of but $533 million in surplus account; the difference was financed mainly by increases in bank loans and other short-term liabilities, plus increases in long-term debt.

Sales Increase in Line with Bigger Assets

Although this continuing expansion of corporate assets has been viewed with concern by many investors, it is reassuring to find that, speaking generally, the increases have been little if any more than proportionate to the increase that has occurred in dollar sales. This may be seen from a ratio analysis of the latest quarterly estimates of operations and balance sheet condition of all U. S. manufacturing corporations, prepared jointly by the S.E.C. and the Federal Trade Commission.

For example, sales are running at the annual rate of 5.8 times inventories, compared with 5.7 times a year ago. In some lines (food, textiles, clothing, paper) the inventory accumulation will nevertheless bear watching. Sales are running at 4.7 times plant valuation, against 5.0 a year ago. Receivables represent only 30 days sales, the same as a year ago. Receivables, however, will also bear watching, in view of the creeping increase in business failures, particularly among newly-established retail distributors.

Current liabilities are only 31% of net worth, the same as a year ago. Total debt is 44% of net worth, against 43% last year. Plant represented 49% of net worth, against 45% last year.

Taking a broad view of the expansion since prewar of American industry leads inescapably to the conclusion that it has (*Please turn to page* 150)

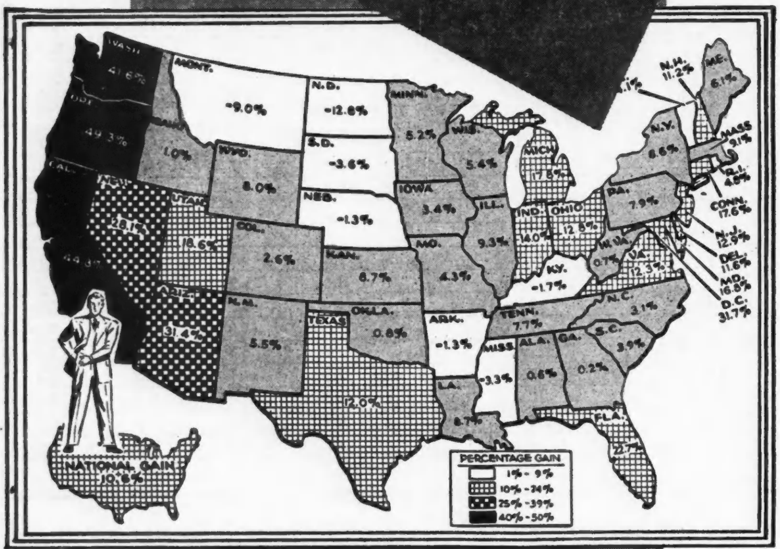
Net Income, Dividend Payments and Retained Income of All U. S. Corporations

(In Billions of Dollars)

Average 10-Yrs.	Net Income	Dividends Paid	% of Net Income	Retained Income
1911-20	$4.6	$2.4	52	$2.2
1921-30	5.2	4.2	81	1.0
1931-40	0.9	3.5	389	—2.6
Years				
1941	7.3	4.5	61	2.8
1942	9.0	4.3	48	4.7
1943	10.0	4.4	44	5.6
1944	9.2	4.6	50	4.6
1945	8.0	4.6	57	3.3
1946	11.4	5.6	49	5.8
1947	16.8	6.4	38	10.4
1948	19.8	7.3	37	12.5

.... Changing U. S. INDUSTRIAL Map....

The vast population changes during the last decade had in their train significant shifts on our industrial map. But business not only has followed the new markets thus created; it has itself opened new ones, stimulating further migration.



By JOHN C. CRESSWILL

Eight years of spectacular economic activity, generated by war and fostered dynamically by postwar conditions, have brought into play some migratory forces of far reaching importance to the business man. A 10% growth in population, along with a record rise in well paid jobs, has spurred workers as never before to move where opportunity seemed brightest. This trend has brought some significant shifts in the buying power of various markets throughout the country, for population gains and losses in the different states have varied widely.

Alert manufacturers and distributors have been prompt to exploit and nourish expanding markets created by some of these vigorous population movements, incidentally providing new jobs and stimulating further migration. Indeed, it is hard to distinguish between cause and effect as to the part played by industry in population shifts, because stepped up development of natural resources, decentralization policies and even military considerations have established enterprises that prove a magnet in attracting workers from remote sections of the country.

In other words, industrial and population growth go hand in hand, each stimulating the other, with sometimes one and then the other providing the primary motivation. These combined influences have decidedly altered our industrial map in the short space of eight years, with major implications as to what may be ahead.

Last year's population gain of 2.7 million, added to recent Bureau of Census estimates, raised the over-all total to around 145 million compared with about 132 million in 1940. Shifts from one state to another, however, resulted in widely varying gains in some sections, along with actual losses in others. In general, a substantial trek from agricultural areas to urban centers has occurred, with a marked movement from many parts of the country towards the West and Southwest.

For example, top gains of 49.6%, 45.1% and 40.1% were registered by Oregon, Washington and California respectively, lifting their combined populations by 4.4 million during the period under review. In contrast, farming states like the Dakotas, Montana and Oklahoma were among the chief losers percentagewise, with losses ranging from 6.1% to 15%, along with a few southern states such as Mississippi and Arkansas where the minus figures were more moderate. In like manner, Nevada and Arizona gained from 28% to 35%, Texas, Michigan, Ohio, Indiana and Utah from 12.6% to 17.8%, while no less than 29 states, some very populous, failed to reach the average national gain of 10.7%. This latter fact is important, for percentages do not portray the more significant factor of numerical changes.

Far West Leads In Gain

On balance, it appears that the Far West plus the Great Lakes area are getting the lions' share of newcomers, with suburban sections adjacent to large cities like New York and Washington gaining population rapidly though they may be located in other states like New Jersey, Connecticut, Virginia and Maryland. On a broader scale it looks as if the New England states were having trouble holding their own, as well as Pennsylvania and most of the states along the Atlantic Seaboard except Florida, the latter now booming.

Looking back to war years, it seems pretty clear that the general pattern of migration established when huge new warplants were built far away from the Atlantic Seaboard and rural workers thronged to the big industrial centers, seems to have been repeated in postwar and even extended as regards the Pacific Coast. Partially accountable has been the

rapid mechanization of farms, wartime experience of workers liking the climate and environment of certain regions, not to mention the greater ease with which increased income and living advantages could be won in populous centers.

The manner in which industry has tended to migrate since 1940 has been affected by numerous factors, varying as to different groups and individual company policies. Location of some $5 billion privately constructed war plants, including those acquired from the Government in postwar, in regions distant from former places utilized, has broadened the activities of many concerns. On top of this, postwar construction programs now about completed have involved an additional $5 billion, with perhaps as much more to be spent over the longer term. While this increased capacity may raise the national total by 50%, there is strong evidence that the South and West will win about three times the gain achieved by the Northeast section of the country.

Other Factors Influencing Decentralization

Not alone population gains but such factors as freight and wage differentials, the exploitation of petroleum resources, lumber, cotton and minerals, have influenced the investment of huge sums in the newly favored regions. By degrees, for example, the textile industry has been constructing and modernizing plants in the South, accelerating the trend in postwar as a 5% wage differential, ready access to raw cotton and favorable freight rates competed irresistibly with mills in the Northeast.

Now it is estimated that the southern cotton industry accounts for 75% of total output, with prospects of a further rise. As a result, though production of durables has been stepped up in the northeastern region, a net loss of some 3% in factory jobs has been estimated. A major expansion in the paper and lumber industry has also given the South a far larger share of the national output than formerly, while the uptrend in personal incomes below the Mason and Dixon Line has brought large automobile assembly plants, new retail stores, agricultural equipment warehouses and the like.

In booming Texas, where oil fortunes are piling up by the score, vast chemical plants have sprung up in addition to the wartime plants built to produce essentials for the production of synthetic rubber. Postwar construction of various industrial plants, commercial buildings and homes has already exceeded records established in war years, impressive as these were. As a result of these stimulants, wages have risen above the national average. Spread over a sizable growth in population, this has given Texas a larger share of the national income, the basic lure to industry in mapping out expansion programs. Applied to the Southwest and West broadly, this factor has helped to lift the share of national income to around 40% of the total.

The most fertile field for industrial growth has been the Far West. Only a few years ago production of lumber and food outstripped that of other items by a wide margin in this region. Wartime building of ships and munitions, though, transformed the area into a leading industrial area very rapidly, attracting a flood of workers from other regions, while millions of Army and Navy personnel had their first chance to appreciate the advantages of the Pacific Coast as a spot to locate in postwar.

Although births and an influx of well-to-do migrants has helped to expand the population fast, the initiative of business in utilizing and expanding wartime plants and establishing a string of new industries has held many war workers from returning home, besides opening an inviting prospect for incoming migrants. The vast development of cheap power from the big Government dams and an increasing availability of natural gas has further stimulated industrial growth. Metals and chemicals formerly shipped from the Midwest and East are now pouring out of newly constructed western factories, and practically all of the large automobile manufacturers have established assembly plants. Ford in particular is now ordering $50 million of parts from local suppliers in the region, thus showing how one form of business creates another, establishing a firm foundation for permanent growth.

Rising Income Offsetting Static Population

These facts, however, point to another. It is that industrial migration does not necessarily hinge upon following the caravan of personal migrants and the observance of sharp population uptrends in certain regions, influential though these factors often are. Even in regions where population gains have been relatively static or on the losing side, an over-all rise in personal incomes has proved an offset.

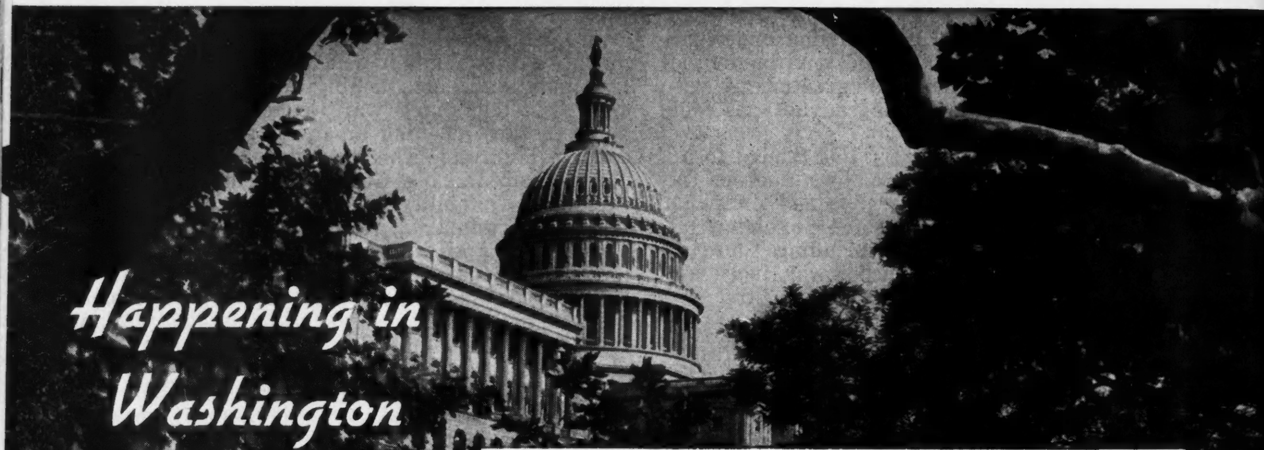
This is aptly shown by the experience of some of the southern states now enjoying a fair share of national prosperity. Though wages in this general area still are about 15% below the national average, they have climbed from such a low former base as to greatly increase the purchasing power of their population all along the line. Mechanization of farming and lumbering has released many workers from ill paid jobs to better ones in the factories, without leaning upon migrants to fill them. New textile, paper, rubber, food processing and chemical plants, automobile assembly units, department stores and movie theaters have held employment at high levels, in turn benefitting from the increased purchasing power they have given rise to. Large corporations established in other sections have been awake to improved potentials in the South and have established branches at many points.

(*Please turn to page* 153)

Population Changes by Major Geographical Areas

Region	July 1 1940 (Population in millions)	July 1 1948 (Population in millions)	Percent Change
Northeastern States	36.0	39.2	8.0
New England	8.4	9.4	12.0
Middle Atlantic	27.5	29.8	9.0
North Central States	40.1	43.7	9.0
East North Central	26.6	29.9	12.1
West North Central	13.5	13.8	2.0
The South	41.7	44.8	7.1
South Atlantic	17.8	19.5	10.0
East South Central	10.8	10.9	1.0
West South Central	13.1	14.8	13.0
The West	13.9	18.9	36.0
Mountain States	4.2	4.5	7.0
Pacific Coast	9.7	14.4	48.1
U. S. Totals	131.7	146.1	10.7

(Note: Minor discrepancies between the totals and the subgroups are due to the rounding off of the figures to the nearest hundred thousand.)



NO PEACE-TIME WPB

By E. K. T.

EXPANDED federal payrolls to carry out congressional mandates in the always-expanding field of centralized government have pointed a new field for campaign money, and both major parties plowed it deeply in the recent campaign. Government jobs, especially in the higher pay brackets, usually are filled by veteran politicians who need no warning on the wisdom of "pay off, to hold on." This year, the solicitations moved in the lower grades. Herbert Brownell, Dewey campaign manager, had blasted the democrats for tapping federal workers, only to find that his headquarters had done the same thing — and in writing!

PRESSURE for amendment of the wage-hour law will flow from Supreme Court's refusal to grant rehearing in the overtime-on-overtime cases decided last June. The Justices decided that premium rates of pay for "undesirable" hours (nights, Saturdays, holidays, etc.) are "regular wages," and that overtime must be computed on that base. The result is a pyramiding. The court ruled only on the selected set of facts, set no guides to be followed in other situations, and from that void comes the demand for clarifying amendments from congress.

CANDIDATES on national tickets are the safest bettors in the world, it appears. They seldom risk a job in hand for a better one in prospect. Charles Evans Hughes quit the Supreme Court in 1916 for what looked like a sure thing, but proved otherwise. Since then, nominees have been wary. Examples include: Warren Harding's failure to resign from the senate to run for President in 1920; John N. Garner remaining a house member while running for vice-president in 1932; Charles L. McNary staying as a senator while running with Willkie — and recently Senator Barkley.

HEAVY USERS of the United States mails must prepare for a substantial increase in their operating costs next year. After fumbling with the subject of higher postage for several years, yielding each time to pressure from shippers by mail, congress now will take positive action. There is no escape; the Post Office Department will report a record deficit of 500 million dollars. Congress had hoped to avoid blanket rate boost by forcing economies, but found the things the Department buys have gone up in price, wages too, just as in private business. There's no alternative to postage increase, and it will be enacted.

WASHINGTON SEES:

Forewarned by significant activities around Washington, congressional leaders who hold the federal purse strings are making ready to clip the wings of the National Security Resources Board, prevent the slow but certain growth of a peacetime copy of the War Production Board whose arms would reach down into business and industry the country over.

Lawmakers, including the chairmen of major house committees in Washington to aid in directing the political campaign, were united in a decision that NSRB will remain a planning agency, not an operating one. They were troubled by the fact that divisions matching the WPB sections for industries were coming into existence on paper, knowing that is the first step toward formulation of "directives." And their suspicions were confirmed when they found Departments of Labor, Commerce, and Agriculture planning to include in requested appropriations, money to carry the control agencies on. There was no evidence of a program for overall surveillance in business in peacetime, but the isolated fund requests, when pulled together, would have the same effect.

So the word has gone down the line that budgets will be scrutinized in January with especial care to detect, and weed out, any blooms of a working WPB (whatever its name may be) which might show their heads. And NSRB funds will be thinned to the point where nothing beyond planning can be possible.

As We Go To Press

Civilian Aeronautics Board and a large part of the aviation industry breathed a sigh of relief when President Truman ended his campaign trips by air. It seemed each tour into the hinterland resulted in orders to issue more licenses for overseas airlines. For example, several carriers had sought authority for an air route from Seattle and Portland to Honolulu. The White House and CAB were on record as opposed -- not enough potential business, they said.

Came the President's first trip to the west. On his return he directed CAB to issue a certificate to the Northwest Airlines to establish a route. Several months passed and the President was again on the West Coast. On his return he ordered CAB to issue a certificate to Pan-American Airways to fly the Seattle-Portland to Honolulu route.

And his decision in each instance was final. The Supreme Court has ruled that the President has final authority to determine overseas air routes. Otherwise, there would have been remonstrance in the Board membership. The Post Office Department, already struggling under the burden of operating at a loss while carrying tons of congressional mail free, is glad the excursions are over. It has to pay mail subsidies to all lines -- including those which, like the two mentioned above, were held to be unwise and "uneconomical" only a few months ago.

Washington is buzzing with speculation as to what will happen come next January. There's a local interest -- jobs; there's a broader interest because agencies which deal with business and industry on all levels throughout the country are going to be seriously affected by what congress does with recommendations to be included in the Hoover Committee report.

Due in January is the set of proposals by the committee headed by the former President of the United States. Firms which have been accustomed to dealing with established agencies may soon find those bureaus non-existent. They'll probably find functions combined, new offices set up, and some dealings moved up to the Cabinet level. Most numerous switches will be in mergers of two or more agencies doing related work into a single office, under a single head.

A new Department of Administration may handle the major matters of the Budget Bureau, the Civil Service Commission and others which make up the bulk of government "fixed charges," and decide how to meet them. The Federal Works Agency is likely to disappear, absorbed into a Department of Public Works where, it is anticipated, loose spending will be curbed by closer watch on the bankroll. Public housing may drop into the same group -- and it is possible that Reconstruction Finance Corporation will be a part of it, probably dominating.

Prospect is that there will be a Department of Transportation. Visualized there is a bureau dealing with federal expenditures for highways, and regulation of aviation. There is talk of a Department of Public Health and of Public Power -- the former possibly picking up the work of the Federal Security Agency, including Social Security taxes in the hope of resolving controversies on major policy matters, including whether there should be acceleration of payroll tax percentages -- or, in fact, reducing them.

Selective Service can take one of each 100 workers in the United States according to a Census Bureau survey taken recently. Draft-age non-veterans, those

See Holiday Gift Offer in this Issue

between 19 and 25 years, number 2.5 millions -- 4 per cent of the working force in the country. Census Bureau breaks it down further: manufacturing, 28 per cent; farming, 24 per cent; retail and wholesale trades, 16.7 per cent; service industries, 10 per cent; construction work, 7.9 per cent; public utilities and elsewhere, 2.5 per cent.

The military agencies are taking no chance on another "Pearl Harbor" catching them without well-oiled liaison to industry, labor, the press, education, church, local government and professional leaders. Planned in November is a get-together here at which the National Defense Department will meet, and be met by, representatives of all these groups. There will be thousands of words of double-talk on the part of the military men, but the "guests are expected to ask pointed questions, demand more detailed information than has been handed out in recent months as to the exact situation in world diplomacy and what's ahead.

The housing lobby professes to sense a drive to make rent control a permanent policy of government and is out to beat what it contends is a bi-partisan effort in that direction on Capitol Hill. Lawmakers busy campaigning for themselves or others have been persuaded to the belief that controls should not be dropped; "mothballed," possibly, but not left beyond reach. The fight will not be under cover; announced is a program utilizing newspaper advertisements, radio broadcasts, and speaking tours, with costs apparently a secondary consideration. There was no appeal for funds linked with the notice that the National Apartment Owners' Association will take the leadership.

Political campaigners who invaded the farm belt found that agriculture refused to be frightened into vigorous support of either party -- or, for that matter, cajoled into enthusiasm. The attitude was one of complete confidence. And the situation was justified by the current situation and the outlook.

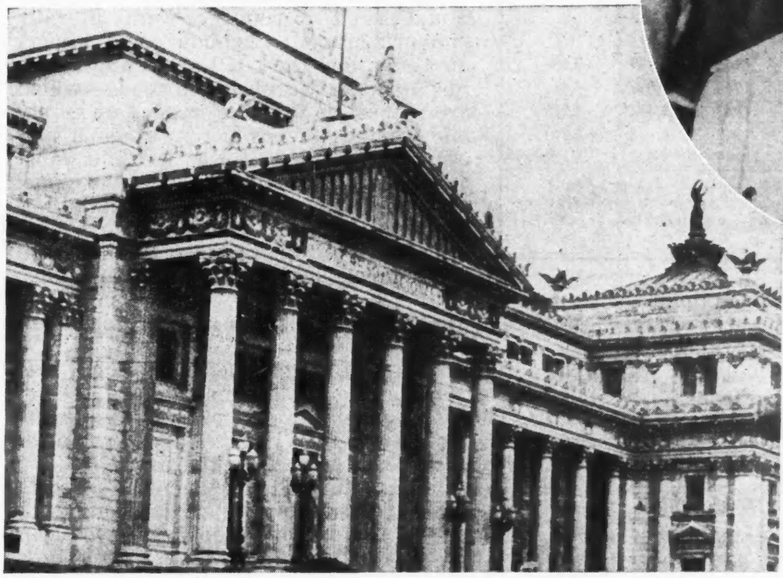
Continued high levels of income will tend to hold farm land values at their present peak, may even cause increases, the Bureau of Agricultural Economics concedes. Value of farm lands for the country as a whole advanced 7 per cent in the year ended July 1. This gain brought values to double the level prevailing in 1941, and 2 per cent above the peak reached in 1920. The level of values in 35 states now is equal to or above the peak values of 1920. The Corn Belt and the Northern Plain states are the only large areas where land values are still below the 1920 top. So runs the report which brings complacency to the farmer.

Latest of the sub-divisions of the National Security Resources Board to be created in the strides toward a peacetime reproduction of the War Production Board is a construction materials division. It will be headed by John P. Kottcamp, former Johns Manville executive. Essential military building and jobs of strategic importance will come first -- possibly some war housing. The war plant, in all respects, has been so thoroughly dismantled, or sold, that these needs -- if they become emergent -- will leave little for the civilian economy.

Important government decisions are ahead affecting the principal grains -- wheat and corn. Both the cash and future markets for the remainder of the year could feel the impact. ECA Administrator Hoffman decided weeks ago that wheat for export should be handled through private trade channels. But the Department of Agriculture has never agreed on the soundness of that decision, wants to move surpluses rapidly to beat the break in world market prices likely to follow arrival of the Southern Hemisphere crop.

Simplification of procedures and ease of movement are ECA's objectives, but numerous joint meetings with Agriculture have produced no substantial results. The White House is expected to move in soon, demand action -- probably uphold Hoffman policies.

ARGENTINA'S . . . Losing Gamble . . for POWER . .



Argentine's "Peronismo" finds matters getting increasingly difficult, with the ultimate prospect of a sharp paring down of Sr. Peron's ambitious plans for the future.

Photo by International News

By V. L. HOROTH

The avowed ambition of President Juan D. Peron is to build up Argentina into a dynamic, economically powerful state which would assume the leadership of the so-called "third position" nations. This is the term for the countries such as Spain and Portugal, which are supposed to practice benevolent, enlightened dictatorship in politics, and extensive government control in the field of economics and finance. They lie somewhere between capitalism and democracy on one side, and communism and totalitarianism on the other.

The purpose of Senor Peron's grandiose "Five-year Plan of Economic Development" and of the "Peron Plan"—which was to parallel the Marshall Plan—was to catapult Argentina into such a leadership. Now, however, these ambitions are to be sadly disappointed in the grim realities of the postwar world. The problem is how Argentina is to make her retreat without a huge loss of face for President Peron—a loss which under the present circumstances could easily have serious political consequences for "peronismo" in Argentina.

President Peron may be a great soldier. He and the men around him are unquestionably shrewd "politicos," able up to now to keep the popular support of the masses despite the deteriorating economic situation. And they are able diplomats as shown by the fact that on a number of occasions they have been able to tweak Uncle Sam's nose with impunity.

But in other respects, Sr. Peron and the leaders of his personal party are nothing more than a Latin American version of Huey Long and his henchmen—with some improvements over that late "statesman." The "Peronismo" is a sort of Argentine "new order of things," a collection of contradictory and confusing catch-phrases and policies applied to economic, financial and social problems.

But the devil is now asking his due. A period of postwar readjustments is clearly ahead for Argentine. With the production of wheat and other foodstuffs increasing all over the world, and the sellers' market gradually being replaced by a buyers' market, Argentina can no longer dictate the prices for her products. Some of these products, such as hides, linseed, and corn are now backing up and their disposal is likely to become a headache. The outlook is for declining export earnings. This is important, for in Argentina as in other Latin America countries, export surpluses perform the function of investments in more advanced countries. They generate further production. This is the main reason why Argentina's industrial expansion will have to slow down unless, of course, foreign loans are forthcoming.

Even if Argentina were in a strong economic and financial position, as is her neighbor republic Uru-

Argentina: Gold and Dollar Reserves

PROGRESS OF INFLATION

	Central Bank Gold & Dollars (millions of U.S.$)	Dollar Bank Bal. in U.S. (millions of U.S.$)	Money Supply(b) millions of pesos	Wholesale Prices 1937=100		Budget Expenditure Direct millions of pesos	Budget Expenditure Including Acct. Dept.
1946					1939	1,461	....
Dec.	1,055	113	9,013	208	1940	1,317	....
1947					1941	1,367	....
Mar.	875	181	9,428	217	1942	1,526	....
June	629	265	9,718	221	1943	1,761	....
Sept.	449	229	9,704	227	1944	2,411	....
Dec.	319	236	10,921	228			
1948					1945	2,759	3,853
Mar.	265	204	11,527	231	1946	3,097	4,468
June	201	185 a)	....	242(a)	1947	3,441	4,907
July	200	....	....	....	1948	4,238	6,201
Aug.	198	....	....	....	1949	4,570(e)	8,600(e)

(a)—End of May, 1948.
(b)—Currency in circulation, demand deposits of commercial banks (ex-interbank deposits); and Central Bank deposits (ex. gov. and interbank deposits).
(e)—Estimate.

guay, postwar readjustments would still be difficult to carry out. But Argentina has empty pockets, and her economy has been weakened by inflation, brought about largely by senseless expenditures for armament. In the past, a part of these expenditures has been paid for by fictitious profits of the State trading machine, the Argentine Institute of Trade Promotion (IAPI), which paid to farmers about one third of the price charged for exports. Since the farmers are now wise to IAPI practices, they refuse to plant crops unless they get better prices. At the same time the prices the IAPI can charge are declining. This means that the IAPI will have much smaller profits in the future and that the cost of armament will have to be borne by taxes on business and the middle class, both of which are already confused by Sr. Peron's unsound and contradictory policies.

One reason why Argentina's Five-Year Development Program, and consequently her political ambitions, will have to be deflated is the desperate shortage of dollars. In our last review of the Argentine economic crisis, we discussed at length the developments leading to the dissipation of gold and dollar resources which in the fall of 1946 stood at around $1,150 million. In the first place, the country has over-reached itself, completely miscalculated its economic strength. The accumulating gold in the vaults of the Central Bank, and the huge exports have made nearly everybody, from President Peron down, overconfident. The country went literally "import crazy"; anybody could import anything, and the IAPI spent huge sums for American surplus war goods—which are now of no use, and rusting on empty lots around Buenos Aires. When a halt was finally called, it was too late. Most of the gold and dollar reserve was gone, and since many smart people secured import permits way ahead, imports continued to pour in in large column until last summer despite the new restrictions.

Economic Cooperation Administration: Offshore Purchases in Latin America Up to Mid-October, 1948

Country	Commodity	Amount
Chile	Copper, Nitrate, Beans, Liver Oil	$ 31,300,000
Venezuela	Petroleum, Goat Skins	27,700,000
Brazil	Hides, Cottonseed, Beef, Sugar	16,900,000
Mexico	Beef, Gas Oil, Lead, Sisal, Linseed	15,100,000
Cuba	Sugar, Alcohol, Gunny Sacks	10,400,000
Uruguay	Hides, Beef, Oilseed	4,100,000
Peru	Zinc, Lead, Tungsten, Cottonseed	14,000,000
Argentina	Quebracho, Hides, Skins, Glycerine	1,800,000
Colombia	Cattle, Hides	960,000
Nicaragua	Sesame	840,000
Paraguay	Cottonseed, Peanut Cake, Hides	500,000
Bolivia	Tungsten Concentrates	230,000
Haiti		90,000
Ecuador		30,000
Total		$113,950,000

Capital Flight Accelerates Exhaustion of Reserves

The flight of capital, Argentine and foreign, was another reason for the rapid exhaustion of the reserves. The purchase of foreign properties and the repatriation of Argentine Federal and Provincial dollar bonds also contributed to the drain.

Despite a sharp falling off of Argentine imports from the United States and desperate attempts to plug the holes through which dollars have been escaping, the gold and dollar resources have now shrunk further. The Central Bank held less than $200 million as of the end of September, and in addition Argentine dollar bank balances in this country were about $185 million as of last May. However not all of the latter are usable for the financing of imports.

The latest measures aimed at conserving dollar exchange include the ban on travel and family remittances (to students, travelers, etc.) after November 1. To discourage the flight from the peso into gold and dollars, the National Economic Council ordered compulsory declaration of all privately held gold. But the shutting off of travel and family remittances are reported to be driving the Argentinos into the black market, where the dollar is apparently bringing as much as 10 to 12 pesos as against the so-called "free" rate of 5 pesos per dollar, and the preferential rate (used for financing essential imports) of 3.7 pesos per dollar.

Hope for ECA Benefits Dimmed

While last year Argentina still had her own substantial resources of gold and dollars to draw upon, she was also receiving dollars from European countries. These dollars represented in most cases the proceeds of American credits and loans. This source of dollars has now dried up, and the spending of the Economic Cooperation Administration (ECA) which was to replace them, has been negligible to date insofar as Argentina is concerned. Orders for less than $2 million have been placed for quebracho, hides and skins, and glycerine.

For the fact that ECA expenditures have not been

larger Argentina has only herself to blame. During the first months of the ECA, when food was badly needed abroad, Sr. Peron was disdainful of the demand that Argentina sell her surpluses at world prices. Instead he proclaimed the so-called "Peron Plan." A number of foreign countries were given Argentine peso credits, and he then charged high prices for the goods they ordered. Some of them, as for example France and Brazil, got a rather rough deal. Now the peso credits have been spent; there are unsold surpluses of grains and hides, foreign countries are no longer rushing to buy.

About two months ago, Sr. Peron, disappointed and angry, and hard pressed for dollars, finally agreed to sell at world prices—but only the quantities for which Argentina was to get dollars. But ECA demands that all shipments (of the same commodity to the same country)—even those for which Argentina gets local currencies—be made at world prices. Also the ECA would like to see some of the recently imposed bars against foreign goods modified. But Argentina resists these proposals and there the matter rests.

Large Dollar Balances Awaiting Transfer

Meanwhile the situation has become further complicated. Large balances, estimated at $275 to $300 million, are waiting to be transferred into dollars. These balances represent the payments due to North American banks on letters of credit for goods already shipped. In addition there are about $150 to $200 million, representing a backlog of dividends, royalties, and other payments, also waiting to be transferred into dollars.

The plain fact is that the negotiations with Argentina regarding large scale purchasing of products by the ECA are no longer confined to the matter of prices alone. They are now also concerned with the repayment of the above mentioned frozen balances, and with the liberalization of conditions for foreign investments. Moreover, there is a strong distaste here for the Government Trading Company, the IAPI. But little can be done about this at present. The IAPI is heavily indebted to the Central Bank, and its liquidation would have far-reaching repercussion on Argentine economy.

The recent sojourn of the U. S. Ambassador to Buenos Aires, Mr. James Bruce, in Washington, and the trip last month of the President of the Central Bank, Sr. Orlando Maroglio, to this country, presumably to negotiate a loan (this was, of course, denied officially) concerned the one and same matter: how to unfreeze the dollar balances waiting for transfer, possibly with the help of ECA spending. Unless Argentina can earn more dollars, or obtain a dollar loan, the grandiose Five-Year Development Plan will have to be completely redrawn and stretched over a much longer period. This, however, Sr. Peron is hesitating to do in view of the promises made and the growing opposition to his policies at home.

If Washington and Buenos Aires are unable to work out some agreement regarding prices, the ECA dollar spending, and the unfreezing of blocked payments for Argentine imports, then about the only way open to Argentina is to get the necessary industrial products and capital goods from Western Europe. Although Europe is still unable to deliver many types of capital goods in sufficient quantities, its sales have nevertheless been growing persistently. At the same time American exports have taken a nosedive.

One year ago, our exports to Argentina were at an annual rate of nearly $800 million. During the three months ending last August, they were at the annual rate of less than $200 million. As a matter of fact, it is reported that British exports to Argentina, now at the annual rate of nearly $250 million, are exceeding the rate of American exports for the first time since the end of the war.

Although American bids are usually below those of competitors, the Argentines have been awarding many of their contracts for machinery, cranes, dredges, railway equipment, and even industrial chemicals to British, Italian, Czech and recently also to German and Hungarian enterprises. The reason is simple: they do not need to pay in dollars which these countries don't have. Neither do they have Swiss or Belgian francs. A month or so ago, the National Bank of Belgium warned Belgian firms against opening credits to Argentine enterprises. And the Swiss are also hesitating to do business with Argentina for much the same reason.

At the present time Argentina is also short of pound sterling. Earlier this year, Argentina used most of her available sterling (nearly £120 million) to pay for the British-owned railways. But since this sterling was used as legal cover for Argentine currency, Argentina had to reborrow the same amount from Great Britain, and is now paying it off by shipping meat and grains. By early next year the debt will be paid off. Then the British must renegotiate their trade agreement with Argentina. It is expected that Sr. Peron will demand to be paid for Argentine meat and grain with ECA dollars. But that may be his last trump card.

Superficial Prosperity

To a casual observer, the economic situation in Argentina looks good. Industrial production continues near capacity levels, the crop outlook has improved considerably with good rains in the most important agricultural (*Please turn to page* 150)

KENNECOTT COPPER Goes Into New Fields

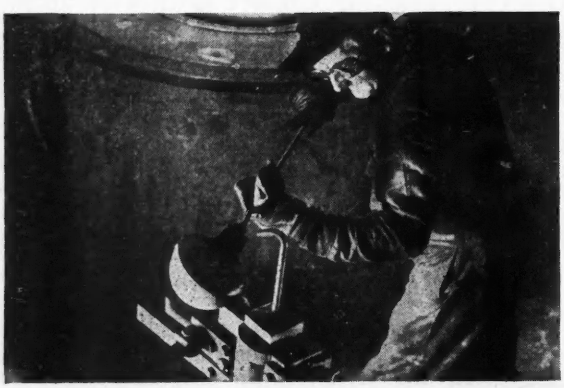
By H. S. COFFIN

More than 90,000 investors, including 383 charitable and educational institutions, had a stake in Kennecott Copper Corporation at the end of 1947. Evidently widespread confidence exists in the long term operations of this leading non-ferrous metal miner. For this reason, the company's fundamentals, its past record and future outlook, provide an interesting subject for examination.

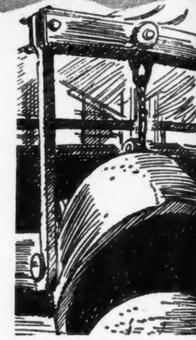
Ownership of vast quantities of non-ferrous metal ores, such as copper, molybdenite, gold, silver and zinc, especially if they can be mined at relatively low cost, provides a highly dependable form of wealth. While world demand for most of these metals varies during cyclical periods, their essential need by manufacturers of practically all durable goods assures an average demand of large proportions. These basic advantages have created a strong foundation for Kennecott Copper over a long period of years and lend promise to its future operations.

This giant concern owns four valuable copper mining properties in the United States, and the important Braden mines in Chile. In the process of treating ores of this character, sizable quantities of gold, silver and molybdenite are extracted, establishing an additional source of revenues.

To judge the magnitude of Kennecott's operations consider last year's output from its five major properties. It amounted to 1.01 billion pounds of copper, 25.7 million pounds of molybdenite, 391.4 thousand ounces of gold, 3.1 million ounces of silver and 19.4 million pounds of zinc. About 73% of the copper came from American mines and the balance from Chile. In 1947 gross revenues of the company from all sources, including its fabricating division, exceeded $317 million and net earnings after taxes soared to a record high of $91.9 million.



Though copper mining is its main business, Kennecott is increasingly extending its scope of operations to other important minerals.



From an operational viewpoint, Kennecott enjoys a permanent advantage through low cost mining in several of its United States properties. Open pit mining is employed on a huge scale in Bingham, Utah, the Chino mines in New Mexico and the company's Nevada mines. This leaves only the Ray mines in Arizona dependent upon tunnelling, and by degrees Kennecott plans to substitute open pit methods even here. By stripping off surface material of various depths, cost savings are consideable, often sufficient to warrant recovery and treatment of low grade ores that would be unprofitable to mine by underground operations. The large Braden mines in Chile are impractical to work by open pit methods, but the higher quality of the ore produced in that area tends to offset this disadvantage.

While Kennecott owns a number of concentrating and smelting plants located near its domestic and foreign mines, American Smelting & Refining for many years past has smelted some ore for Kennecott and handled the bulk of its refining. But Kennecott now plans more complete integration by erecting a refinery of its own in Utah. This large scale improvement has already been started through construction of a new 14-mile electrified railway from the mine to mill site and a $12 million power plant with a capacity of over 110,000 k.w. Work has also probably been commenced on a new refinery at Garfield, Utah, that should have an initial capacity of 12,000 tons of copper monthly. Upon completion, this unit should permit in substantial cost savings, for increasingly heavy freight rates to refineries of the American Smelting & Refining Company on the eastern seaboard have been an expensive item.

Large Expansion Outlays

Additionally Kennecott is planning large outlays to broaden its operations in its open pit Utah mines. Construction of a four mile tunnel will permit haulage of much ore to a smelter to be operated by U. S. Smelting, Refining & Mining Company near the portal at Lark. Upon completion of this project, Kennecott will be in a favorable position to exploit large new mining areas formerly held in reserve, which should expand its over-all output. Then in both Nevada and New Mexico, the company has stripped millions of tons of surface material in preparation for extended open pit mining. Underground explorations have brought results that warrant the large outlays that are involved.

We cite all these improvement programs as an indication that despite a vast depletion of ore bodies removed from Kennecott mines over a long period of years, the company evidently is confident of long continued and profitable operations in coming years. Its proven reserves have always been considered as very large, though no definite figures are available. Through long experience, Kennecott has learned that by using open pit methods, mining costs can be held low enough to warrant handling of copper ore relatively low in grade. As the domestic mining properties embrace tens of thousands of acres, the huge canyons already excavated represent only a fraction of the area that may be ultimately worked, although to date some of the better grade ores have been utilized.

Comparative Balance Sheet Items

ASSETS	December 31, 1940	1947 (000 omitted)	Change
Cash	$ 65,117	$101,799	+$ 36,662
Marketable Securities	21,693	138,502	+ 116,809
Receivables, Net	16,084	19,898	+ 3,814
Inventories	46,288	54,902	+ 8,614
TOTAL CURRENT ASSETS	149,182	315,081	+ 165,899
Plant and Equipment	313,827	353,608	+ 39,781
Less Depreciation	104,429	152,255	+ 47,826
Net Property	209,398	201,353	— 8,045
Other Assets	36,067	24,178	— 11,889
TOTAL ASSETS	$394,647	$540,612	+$145,965
LIABILITIES			
Accounts Payable	$ 6,679	$ 11,742	+$ 5,063
Reserve for Taxes	22,239	46,353	+ 24,114
Other Current Liabilities	4,572	4,601	+ 29
TOTAL CURRENT LIABILITIES	$ 33,490	$ 62,696	+$ 29,206
Reserves	6,999	20,099	+ 13,100
Capital	53,199	53,199	....
Surplus	300,482	404,263	+ 103,781
TOTAL LIABILITIES	$394,647	$540,612	+$145,965
WORKING CAPITAL	$115,692	$252,385	+$136,693
CURRENT RATIO	4.5	5.0	+ .5

Broadening Interest In Other Minerals

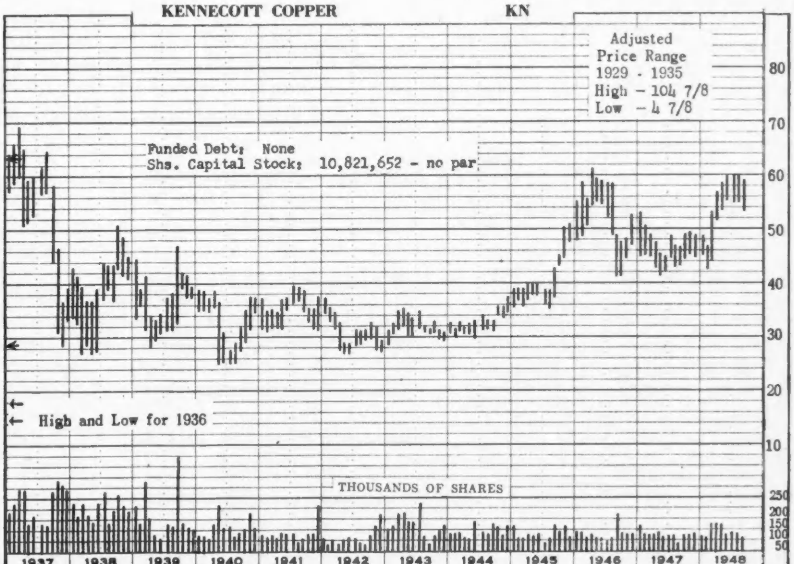
Nevertheless, the Kennecott management is alert in widening the scope of its activities in the realm of exploration, not only in the search for new copper deposits but for other minerals as well. During the 1943-47 period the company's engineers examined no less than 475 prospects in the United States and Canada, with 34 exploratory projects resulting. At least one of these has advanced to the production stage. In recent years, also, Kennecott has by no means overlooked the possibilities of oil development. About three years ago, an agreement was reached with Continental Oil Company for the joint acquisition of 19 groups of oil leaseholds in Texas, Oklahoma, Kansas, Wyoming and Colorado, whereby Kennecott would share profits derived from sales of crude oil at the wells. During last year, drilling was confined largely to the Boggs field in Kansas and the Elks Springs area in Colorado, both of which are considered favorable prospects. In due course, it is possible that some substantial profits may be derived as oil explorations are expanded and prove up.

During 1948 Kennecott has broadened its sphere of activities to include gold mining operations in South Africa. In conjunction with British interests, the company has formed Kennecott-Anglovaal Exploration Co., Ltd., with a capital of £1.4 million. Details of this venture are not available, but its substantial size suggests that some interesting bodies of gold ore are to be developed or that preliminary discoveries encourage large scale exploration. At best, however, some time is likely to pass before actual results of this enterprise could measurably affect Kennecott's annual revenues.

Far more important in long term implications has been Kennecott's recent move to exploit important bodies of titanium ore in Canada. On August 27, 1948, the company acquired two-thirds of the voting stock, and New Jersey Zinc Company the remaining third, of Quebec Iron and Titanium Corporation, capitalized at $30 million under the laws of Delaware. It seems that Kennecott's Canadian subsidiary, Kennco Explorations, Ltd., discovered some large deposits of titanium ore in Eastern Quebec, operating under license from the Quebec Government. So extensive and potentially valuable are these ore bodies as to warrant an immediate outlay of perhaps $15 million for a new refinery at Sorel on the north shore of the St. Lawrence and another $10 million to construct a connecting railway to the mines. Power will be furnished by Shawinigan Power Company, so that the ore can be treated electrolytically.

Newcomer—Titanium

During the last two decades titanium has forged to the fore as an important source of white pigment to the paint industry, but to meet requirements it has been necessary to import large amounts of the ore



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN	4.60	2.10	3.14	4.05	4.55	4.51	4.16	4.01	2.80	2.13	8.49	
DIV.	3.50	1.75	2.00	2.75	3.25	3.00	3.00	2.50	2.50	2.50	4.00	
Wkg Cap $ Mil		82.8	98.4	115.7	143.3	159.3	174.6	194.8	215.8	210.0	252.4	

from India. Titanium ore is closely associated with iron and in connection with its production, as much as 40% of iron can be extracted. Only recently du Pont, an important factor in developing markets for titanium pigments, announced the first commercial production of titanium as a metal. The latter is a light weight metal with relative strength and corrosion resistance that could conceivably compete with aluminum or magnesium, not to mention many of the well known alloy metals.

Importance of New Ventures

The significance of this venture into titanium and iron ores by Kennecott Copper Corporation is far greater than the initial outlay of even so large a sum as $25 million would indicate. According to Canadian authorities, the project eventually will involve an investment of more nearly $150 million by the time the deposit is fully developed. Of course the two strong companies sponsoring the venture can comfortably finance the large program envisaged, if necessary, but not until 1951 probably will initial production really begin. As it seems hardly plausible that any industrial program of this sort would be undertaken unless a return of at least 10% on the investment were reasonably certain, it is interesting to figure that, given time, Kennecott's net income might be boosted by several millions annually through dividends from this new Canadian subsidiary. Obviously this is looking quite a distance into the future, and only time can reveal the degree of success the venture will achieve, and its ultimate potentials.

Aside from trying to stabilize its long term operations through diversification, Kennecott has made steady progress towards integration in past years. In 1929, for example, it acquired its fabricating subsidiary, now known as Chase Brass & Copper Company. This unit produces large amounts of copper tubing, strips and sheets for sale to numerous industries, besides manufacturing a long list of finished consumer goods such as plumbing fixtures, kitchenware, ash trays and various household items of artistic design.

While the parent concern finds a ready outlet for its refined copper through its Chase subsidiary, it also supplies large quantities to other fabricators at home and abroad. Chase Brass maintains a string of strategically located warehouses to facilitate distribution of its numerous products. As for wires and cables, another subsidiary, Kennecott Wire & Cable Company produces and sells these specialties on a countrywide basis, finding substantial markets among the utility concerns in particular.

On the appended table we show the ten year operating and earnings record of Kennecott Copper Corporation, along with dividends paid and year to year price ranges for the shares. To complete the picture, we show on another tabulation comparative balance sheet items for 1940 and 1947 in order to reveal some significant changes that have occurred during this period.

The capitalization of Kennecott is simple, consisting of 12 million shares of no par common, of which approximately 10.8 million shares are outstanding. There is no funded debt or preferred stock. This absence of senior charges tends to stabilize earnings applicable to the equities, while full ownership of the company rests with common shareholders. Average net income of $42.7 million during the last decade has permitted liberal treatment of stockholders besides increasing working capital by $136.6 million to a record height of $252 million.

Strong Financial Position

The strength of the company's financial position is shown by holdings at the end of 1947 of more than $240 million cash and marketable securities compared with total current liabilities of only $62.6 million, a ratio of almost four to one. If inventories and accounts receivable are included, the current ratio appears as 5-1. It is interesting to note, furthermore, that while combined inventory and receivables have increased only by $12.4 million in seven years, cash and marketable securities have swelled by about $153 million. This attests to a remarkably liquid status at present.

Book values of equities at best are of secondary interest, with earning power the main determinant of prices. This is especially true in appraising the value of shares in a number of the big copper companies, including (*Please turn to page* 145)

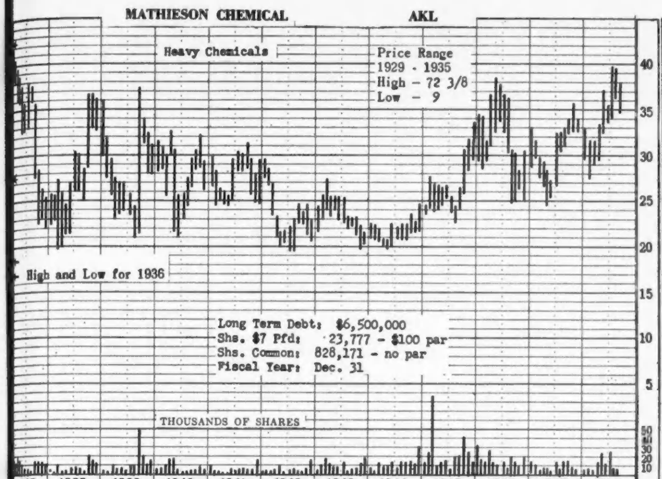
Long Term Operating and Earnings Record

Years	Total Copper Production (million lbs.)	Metal Sales	Net Operating Income	Deprec. & Retirements	Operating Margin† %	Net Income* $ million)	Net Profit Margin %	Net Per Share	Divs. Per Share	Price Range
		———	$ million	———						
1947	1,015.5	$317.0	$148.5	$4.9	46.5%	$91.9	29.0%	$8.49	$4.00	52½-41¼
1946	594.4	155.2	45.1	4.1	28.6	23.0	14.9	2.13	2.50	60¼-41
1945	988.3	209.6	59.5	14.7 a	28.1	30.2	14.4	2.80	2.50	51 -35¼
1944	1,161.6	246.4	86.4	8.5 b	33.9	38.8	15.5	3.59	2.50	37⅜-29¾
1943	1,274.4	258.5	99.9	8.7 b	37.1	44.9	17.0	4.16	3.00	35⅞-28⅝
1942	1,264.7	224.7	101.1	6.7 b	38.4	48.8	19.0	4.51	3.00	37½-26⅜
1941	1,110.0	248.9	96.1	7.4 b	39.6	49.2	20.7	4.55	3.25	39¾-30⅜
1940	962.5	127.0	72.9	5.4 b	40.4	43.8	24.7	4.05	2.75	38⅞-24⅛
1939	763.5	167.1	48.8	5.5 b	35.3	33.9	25.1	3.14	2.00	46½-28
1938	598.9	138.8	31.5	4.4 b	31.0	22.7	23.2	2.10	1.75	51 -26⅜
10 Year Average 1938-46	973.4	$209.3	$78.9	$7.0	35.9%	$42.7	30.3%	$3.95	$2.72	60¼-24⅛
4 Year Average 1938-41	858.7	$170.5	$62.3	$5.7	36.6%	$37.4	23.4%	$3.46	$2.44	51 -24⅛

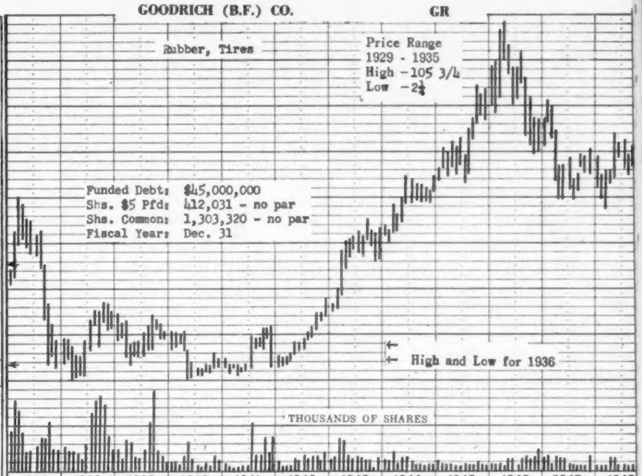
†—To total operating revenues.
*—Before depletion.

a—Includes $9.3 million amortization of war facilities.
b—Includes portions relating to railroad and steamship operations.

SIX WELL-ENTRENCHED DIVIDEND PAYERS



1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	
1.81	1.01	1.12	1.72	1.90	1.26	1.34	1.40	1.19	2.25	3.34		EARN.
1.65	1.50	1.50	1.50	1.75	1.12½	1.00	1.00	1.00	1.25	1.67½		DIV.
	3.5	3.7	4.2	4.5	5.5	7.2	9.2	10.3	7.7	.4	Wkg Cap $ Mil	



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN.	d 2.26	.14	3.51	3.12	5.02	5.73	7.31	7.64	7.84	17.69	16.18	
DIV.	1.00	-	1.00	.50	2.00	1.00	2.00	2.00	2.25	4.50	5.00	
		63.1	63.3	63.2	69.4	75.5	78.0	74.8	106.3	113.3	130.7	Wkg Cap.

MATHIESON CHEMICAL CORPORATION
(formerly Mathieson Alkali Works)

BUSINESS: Large scale production of caustic soda, soda ash, chlorine and synthetic ammonia has pushed Mathieson to a high ranking position industrially. Increasing product diversification broadens its marketing potentials.

OUTLOOK: Numerous industries are steady buyers of the specialties produced by Mathieson, and under current boomtime conditions demand has well exceeded supply. The company enjoys a basic advantage in owning large limestone and salt properties in Virginia, New York and Louisiana adjacent to its plants. With adequate raw materials and steadily increased capacity, Mathieson for many years past has met a relatively steady demand from the rayon, soap, paper, glass, textile and oil refining industries, enabling it to operate profitably in every year since 1927 at least. What lends exceptional stability to the business is that sales contracts usually are on an annual basis. Growth potentials have been decidedly enhanced by a practically completed postwar expansion and modernization program involving $19 million, aside from which a $7 million Government owned plant formerly leased has just been purchased by the company. As a result of these betterments, although sales records are not available, an uptrend in earnings during postwar has been marked and appears to be extending. Net per share rose sharply to $3.34 in 1947 and for nine months of 1948 was reported as equal to $3.79, indicating an annual rate of around $5.

DIVIDEND ACTION: During the 1920-25 period Mathieson paid no common dividends, but otherwise distributions have been regular over a period of 41 years. During the first two quarters of 1948, 37½ cents per share was paid each time and 50 cents in the third quarter. No regular rate is observed.

MARKET ACTION: Recent price—47½, a high mark for the current year and representing a rise from a low of 27¼ for 1948.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 1,876	$ 3,297	+$ 1,421
Receivables, net	1,280	2,674	+ 1,394
Inventories	2,127	3,410	+ 1,283
Other Current Assets	58	....	— 58
TOTAL CURRENT ASSETS	5,341	9,381	+ 4,040
Plant and Equipment	36,168	51,394	+ 15,226
Less Depreciation	17,894	28,593	+ 10,699
Net Property	18,274	22,801	+ 4,527
Other Assets	1,840	4,878	+ 3,038
TOTAL ASSETS	$25,455	$37,060	+$11,605
LIABILITIES			
Notes Payable	....	$ 5,500	+$ 5,500
Accounts Payable	$ 421	1,117	+ 696
Reserve for Taxes	710a	2,327a	+ 1,617
Other Current Liabilities	....	....	....
TOTAL CURRENT LIABILITIES	1,131	8,944	7,813
Reserves	403	1,264	+ 861
Capital	17,842	17,842	....
Surplus	4,585	5,323	+ 738
TOTAL LIABILITIES	$25,455	$37,060	+$11,605
WORKING CAPITAL	$ 4,210	$ 437	—$ 3,774
CURRENT RATIO	4.7	1.1	— 3.6

a—Includes payroll accruals, etc.

GOODRICH (B. F.) CO.

BUSINESS: Company is one of the four leading rubber fabricators, deriving a substantial proportion of revenues from tires and tubes. Remainder comes from mechanical rubber goods, footwear, chemicals, and other lines. Three synthetic rubber plants, one government-owned, are also operated.

OUTLOOK: Although sales climbed to record heights during the war, the huge post-war demand for goods resulted in even higher peaks, almost coming close to the half billion mark last year. This produced an income of $23.23 million, or $16.18 per common share, compared with $17.69 in 1946 and $7.84 in 1945, which was the wartime high. Replacement tire demand slackened somewhat during the first six months of this year but this was partially offset by greater shipments for original equipment. In addition, the non-tire lines enjoyed a good measure of growth, with higher prices prevailing. Altogether, earnings during the first six months of this year declined only slightly to $7.64 from $7.82 for the corresponding period in 1947. The expansion in original tire shipments is expected to continue for the remainder of the year, and with higher prices and further growth in the chemical division, overall sales should be well maintained. Higher operating costs may keep profits from topping last year's, nevertheless final results should still be excellent and well above prewar levels. The development of synthetic rubber has very promising aspects, providing a welcome stabilizing factor by minimizing formerly substantial inventory risks.

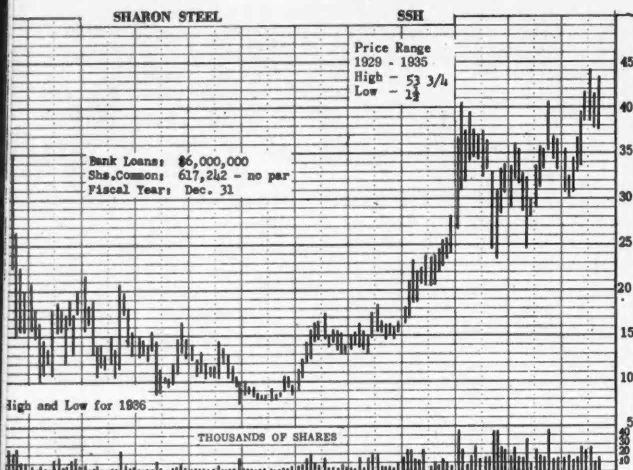
DIVIDEND ACTION: Although generally conservative, dividend payments have become more liberal in recent years. Current rate is $1.00 quarterly, which is expected to be supplemented by a sizeable year-end extra.

MARKET ACTION: Leverage provided by the preferred stock and the nature of the industry have made the common stock somewhat voltaile; however, marketability is good. Recent price of 64 is very close to the year's high of 64½. Low for year is 47¼.

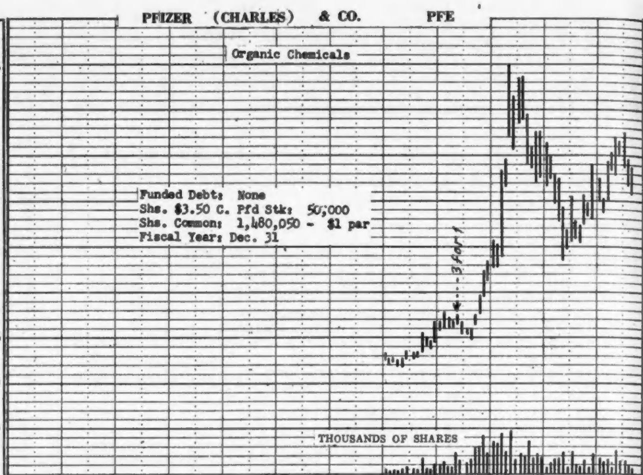
COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 12,888	$ 24,486	+$ 11,598
Receivables, net	27,589	52,346	+ 24,757
Inventories	41,456	88,940	+ 47,484
Other Current Assets	1,326	....	— 1,326
TOTAL CURRENT ASSETS	83,259	165,772	+ 82,513
Plant and Equipment	95,041	155,629	+ 60,588
Less Depreciation	46,374	80,507	+ 34,133
Net Property	48,667	75,122	+ 26,455
Other Assets	8,500	5,828	— 2,672
TOTAL ASSETS	$140,426	$246,722	+$106,296
LIABILITIES			
Notes Payable	$ 7,680	$ 1,365	—$ 6,315
Accounts Payable	8,280	30,545	+ 22,265
Reserve for Taxes	2,258	3,144	+ 886
Other Current Liabilities	1,850	....	— 1,850
TOTAL CURRENT LIABILITIES	20,086	35,054	+ 14,986
Short Term Debt	15,000	....	— 15,000
Long Term Debt	24,505	45,000	+ 20,495
Reserves	377	24,306	+ 23,929
Capital	68,747	85,483	+ 16,736
Surplus	10,698	56,289	+ 45,591
TOTAL LIABILITIES	$140,426	$246,722	+$106,296
WORKING CAPITAL	$ 63,191	$130,718	+$ 67,527
CURRENT RATIO	4.2	4.7	+ .5

SIX WELL-ENTRENCHED DIVIDEND PAYERS



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN.	.83	d 1.01	d .11	2.65	3.40	2.56	1.51	1.97	1.86	4.39	10.89	
DIV.	.20	-	-	.25	1.00	1.00	1.00	1.00	1.00	1.30	2.00	
Wkg Cap $ Mil.		5.8	5.7	8.5	8.0	8.4	9.3	12.1	13.8	15.5	18.6	



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN.	.59	.54	.58	.73	.76	.84	1.19	1.56	1.24	7.17	6.27	
DIV.	.43	.14⅔	.51	.59	.42⅔	.56⅔	.55	.66⅔	.86⅔	3.70	2.75	
Wkg Cap $ Mil.		-	-	-	-	5.2	5.9	6.2	9.2	10.9	18.1	

SHARON STEEL CORPORATION

BUSINESS: Sharon Steel is a well integrated producer whose leading products are hot rolled and cold rolled strip steel, stainless sheets, seamless tubing, and coated steels. Annual capacity amounts to 1,672,000 net tons of steel ingots, with the automobile industry receiving about half of output.

OUTLOOK: Reflecting the insatiable demand for steel, sales and earnings of the company have been increasing sharply during the last few years, reaching peaks in 1947 that were approximately four times greater than in 1929. Last year's results were the most pronounced when earnings of $10.89 per share more than doubled $4.39 per share realized the previous year. That this upward progress is still continuing is borne out by reported earnings of $6.12 per share for the first six months of this year, compared with $5.48 per share for the corresponding period in 1946. Earnings for the full year are estimated at well over $13.00 per share. With demand continuing strong for the major lines and increasing in others, future new sales peaks are indicated, while wider margins and expanding operations should further boost net earnings. Company is in the midst of an improvement program that will involve the expenditure of approximately $9,000,000 during the current year, to be partly financed by long term obligations. Part of currently outstanding bank loans will also be retired.

DIVIDEND ACTION: Needs for expansions, improvements, and working capital have kept dividend payments on a conservative basis. Current rate of 50c quarterly may be supplemented by an extra or be increased to a somewhat higher rate.

MARKET ACTION: In line with the fluctuating nature of the steel industry, the stock in the past has experienced wide price swings, but current market emphasis on steels is imparting considerable price strength. Recent price of 44 compares with year's range of 46⅜ high—30 low.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	December 31, 1947 (000 omitted)	Change
ASSETS			
Cash	$ 3,148	$ 7,295	+$ 4,146
Receivables, net	2,648	6,860	+ 4,212
Inventories	4,962	19,029	+ 14,067
Other Current Assets	....	34	+ 34
TOTAL CURRENT ASSETS	10,759	33,218	+ 22,459
Plant and Equipment	18,018	31,145	+ 13,127
Less Depreciation	11,341	18,528	+ 7,187
Net Property	6,677	12,617	+ 5,940
Other Assets	3,577	2,745	— 832
TOTAL ASSETS	$21,013	$48,580	+$27,567
LIABILITIES			
Notes Payable	....	$ 500	+$ 500
Accounts Payable	$ 898	6,312	+ 5,414
Reserve for Taxes	530	4,817	+ 4,287
Other Current Liabilities	792	2,956	+ 2,164
TOTAL CURRENT LIABILITIES	2,220	14,585	+ 12,365
Short Term Debt	2,000	4,000	+ 4,000
Reserves	377	....	— 377
Capital	9,946	6,233	— 3,713
Surplus	6,469	23,762	+ 17,293
TOTAL LIABILITIES	$21,013	$48,580	+$27,567
WORKING CAPITAL	$ 8,539	$18,633	+$10,094
CURRENT RATIO	4.7	2.3	— 2.5

CHARLES PFIZER COMPANY

BUSINESS: Company is the largest producer of penicillin and citric acid in the country. A wide line of other fine chemicals and medicinals is also produced. The pharmaceutical, food and beverage industries are the principal customers, with antibiotics and citric acid as the most important products.

OUTLOOK: Company's growth has been remarkable, with steady gains in both sales and earnings from year to year for the last dozen years. Although operations have been profitable every year since 1901, they were far exceeded with the production of penicillin in 1943. This accounted for the major part of sales in subsequent years and resulted in a spectacular increase in net income to well over $10 million in 1946 compared with less than $2 million in the previous year. Lower prices for penicillin brought about a slight decline in 1947, to $6.28 a share from $7.17 in 1946. But earnings for the first six months of this year picked up again to $3.70 compared with $2.72 for the corresponding period of the previous year. Full year earnings may well approximate $8.00 a share. With the indicated flattening out in the downward trend of penicillin prices, better margins should be obtained, which together with expanded operations should assure larger volume and favorable earnings, while scientific research enhances the longer term prospects of the company in the possibilities of additional new products. Company has no funded debt or large bank loans outstanding. Only 50,000 shares of preferred stock precede the 1,480,050 shares of common.

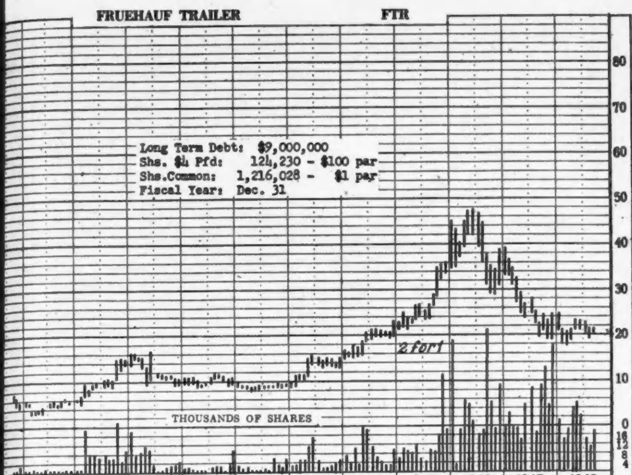
DIVIDEND ACTION: Fairly liberal dividends have been paid every year since 1901. Current rate of 50c quarterly may be supplemented by a larger year-end extra than the 75c paid last year.

MARKET ACTION: Despite well indicated growth characteristics, the stock has been comparatively stable, but occasionally receiving major market attention. Recent price of 54 is almost midway between the year's range of 64⅝ high—47 low.

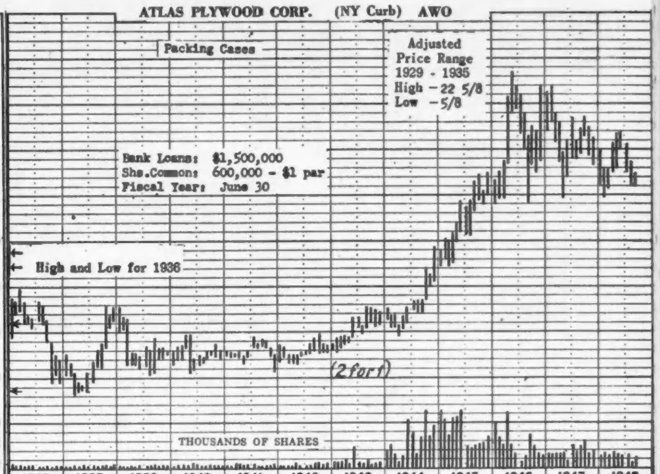
COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1942	June 30 1948 (000 omitted)	Change
ASSETS			
Cash	$ 2,430	$ 8,523	+$ 6,093
Marketable Securities	1,186	3,584	+ 2,398
Receivables, net	1,507	4,154	+ 2,547
Inventories	5,236	10,169	+ 4,933
Other Current Assets	1,005	4,541	+ 3,536
TOTAL CURRENT ASSETS	11,364	30,971	+ 19,607
Plant and Equipment	7,312	22,984	+ 15,672
Less Depreciation	3,493	7,899	+ 4,406
Net Property	3,819	15,085	+ 11,266
Other Assets	2,536	812	— 1,724
TOTAL ASSETS	$17,719	$46,868	+$29,149
LIABILITIES			
Accounts Payable	$ 1,015	$ 1,131	+$ 116
Reserve for Taxes	3,364	7,137	+ 3,773
Other Current Liabilities	996	2,799	+ 1,803
TOTAL CURRENT LIABILITIES	5,375	11,067	+ 5,692
Reserves	2,000	1,123	— 877
Capital	500	5,500	+ 5,000
Surplus	9,843	28,224	19,381
TOTAL LIABILITIES	$17,719	$46,868	$29,149
WORKING CAPITAL	$ 5,989	$19,904	+$13,915
CURRENT RATIO	2.1	2.8	+ .7

SIX WELL-ENTRENCHED DIVIDEND PAYERS



	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN	.33	2.29	1.76	2.39	1.77	2.60	2.14	1.30	4.15	3.11	
DIV.	.12½	.50	.65	.70	.70	.82½	.80	.85	1.00	1.00	
Wkg Cap $ Mil	4.4	5.0	7.8	7.5	8.1	8.2	12.2	14.2	30.1	31.8	



	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
EARN	1.66	.48	.28	1.00	1.81	2.08	1.71	1.66	2.06	2.80	5.87	5.33
DIV.	.62½	.62½	-	.43¾	.75	1.00	.70	.70	.85	1.40	2.25	
Wkg Cap $ Mil		-	1.4	1.4	1.3	1.3	1.3	2.7	2.5	2.5	3.8	

FRUEHAUF TRAILER COMPANY

BUSINESS: Company is the largest producer of truck-trailers, varying from vans, tanks, refrigerators to flat types. About a year ago, light truck bodies and petroleum tank trucks were added to the line.

OUTLOOK: Fruehauf Trailer's dominant trade position, its expanded and modernized facilities, and widely distributed branches, combine to enhance well sustained growth. Demand for the company's special products has increased on a broad scale, as the initial low cost and improved operating efficiency of trailers, along with the rising popularity of highway freight, have been extensively recognized. Although the business is subject to cyclical influences, signs are that considerations of economy may render it more stable than that of ordinary truck manufacturers. Since 1934 the company's volume has risen from a level of $3.3 million to a peak of $84.6 million in 1947 with hardly an interruption in the uptrend. Sales in the first nine months of 1948 were slightly higher than a year earlier and improved cost controls widened margins, lifting net income to $3.59 per share compared with $2.39 for the first nine months of 1947. Fruehauf has recently borrowed $30 million through a new subsidiary to finance instalment purchase contracts, thereby relieving the parent of this financial burden, and to retire bank debts, by this process raising current assets to $55.2 million compared with current liabilities of only $14.2 million.

DIVIDEND ACTION: Payments to common shareholders have been regular for 14 years past, and except for 1933 for a longer period. For the past three years a quarterly rate of 25 cents per share has been maintained. But latest payment was 50 cents a share.

MARKET ACTION: Recent price of 23¾ compares with a 1948 range of high—24⅜, low—17⅞.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1947 (000 omitted)	Change
ASSETS			
Cash	$ 900	$ 4,183	+$ 3,283
Receivables, net	10,445	21,418	+ 10,973
Inventories	4,159	33,320	+ 29,161
TOTAL CURRENT ASSETS	15,504	58,921	+ 43,417
Plant and Equipment	3,649	22,374	+ 18,725
Less Depreciation	850	5,328	+ 4,478
Net Property	2,799	17,046	+ 14,247
Other Assets	617	1,186	+ 569
TOTAL ASSETS	$18,920	$77,153	+$58,233
LIABILITIES			
Notes Payable	$ 4,800	$17,000	+$12,200
Accounts Payable	1,168	2,611	+ 1,443
Reserve for Taxes	....	3,306	+ 3,306
Other Current Liabilities	1,738	4,171	+ 2,433
TOTAL CURRENT LIABILITIES	7,706	27,088	+ 19,382
Long Term Debt	367	9,000	+ 8,633
Reserves	305	....	— 305
Capital	4,203	13,585	+ 9,382
Surplus	5,817	26,795	+ 20,978
TOTAL LIABILITES	$18,920	$77,153	+$58,233
WORKING CAPITAL	$ 7,798	$31,833	+$24,035
CURRENT RATIO	2.0	2.2	+ .2

ATLAS PLYWOOD CORPORATION

BUSINESS: This company is the largest manufacturer of plywood packing cases, normally accounting for about 70% of the country's production. These cases are used extensively in transporting a well diversified line of merchandise. Activities are completely integrated from log to finished products. Constant active research adds to future potentials.

OUTLOOK: Overcoming the depression influences of the Thirties, the company proceeded to expand aggressively in every subsequent year, culminating in an all-time sales peak of over $23 million in 1947. Earnings kept pace during this period, and with better margins prevailing, resulted last year in a sharp increase to $5.87 a share compared with only $2.80 the previous year. Sales for the fiscal year ended June 30, 1948, have not been reported as yet but net earnings climbed moderately. However, per share net showed a slight decline to $5.33 a share, owing to the greater number of shares outstanding. During the early part of the year, demand for the company's products, both from old customers and a constantly increasing number of new ones, exceeded company's capacity to produce. After a brief summer lag, operations were again stepped up to full capacity on September of this year, with indicated third quarter earnings of $1.10 a share, compared with $1.32 a share for the corresponding quarter last year on a smaller number of shares outstanding. Steel shortages and a slight slackening in demand from some of the consuming industries may preclude the establishment of further new sales and earnings peaks; however, technical improvements and ever widening uses for plywood in packaging should stimulate and maintain operations at a high level for several years to come.

DIVIDEND ACTION: Company's dividend payments have been generally conservative owing to the need to finance expansions and to increase working capital. Current rate of $.62½ quarterly appears adequately protected and should be maintained.

MARKET ACTION: Stock has been fairly volatile in the past. In view of good earnings and existing growth potentials, it has promise of market appreciation. Current price of 25⅜ is close to the year's low of 24⅝. High for the year is 32.

COMPARATIVE BALANCE SHEET ITEMS

	June 30, 1940	1948 (000 omitted)	Change
ASSETS			
Cash	$ 433	$ 2,651	+$ 2,218
Receivables, net	307	2,039	+ 1,732
Inventories	1,043	4,841	+ 3,798
Other Current Assets	76	334	+ 258
TOTAL CURRENT ASSETS	1,859	9,865	+ 8,006
Net Property	2,517	9,203	+ 6,686
Other Assets	121	303	+ 182
TOTAL ASSETS	$ 4,497	$19,371	+$14,874
LIABILITIES			
Notes Payable	$ 200	$ 250	+$ 50
Accounts Payable	91	347	+ 256
Reserve for Taxes	81	2,202	+ 2,121
Other Current Liabilities	104	815	+ 711
TOTAL CURRENT LIABILITIES	476	3,614	+ 3,138
Long Term Debt	....	1,750	+ 1,750
Reserves	60	....	— 60
Capital	3,096	6,677	+ 3,581
Surplus	854	7,329	+ 6,475
TOTAL LIABILITES	$ 4,497	$19,371	+$14,874
WORKING CAPITAL	$ 1,383	$ 6,251	+$ 4,868
CURRENT RATIO	3.9	2.7	— 1.2

The NATURAL GAS Industry

—ITS GROWING PAINS AND FINANCING TROUBLES—

By EDWIN A BARNES

The enormous and increasing demand for energy to supply heat and power to the nation's factories, homes and transportation facilities has stimulated production of coal, petroleum and especially natural gas in an unprecedented manner. Of all our natural resources the latter not only is in superabundant supply but has the edge on its competitors as to cleanliness, convenience and above all efficiency on a relative cost basis. This has been proven for years past by a great many industries and some 9 million home owners fortunate enough to have access to natural gas. As a result, insistent demand from all areas has spurred the industry well on its way towards spectacular growth.

Why this sharp uptrend in use of natural gas has not occurred earlier has been mainly due to geographical handicaps, for unlike coal and oil products, gas for practical reasons cannot be transported by rail, sea or trucks. Relatively short pipelines for a long time have served to distribute all the gas that could be produced from wells in the Appalachian area, but the supply there is rather limited and far short of demand. Local customers in the fabulous oil sections of the far Southwest, where associated supplies of natural gas are so tremendous that the daily wastage is shocking, were easily supplied by pipelines. It took wartime enterprise, however, to stimulate the construction of sprawling pipelines on a vast scale from Texas to the Eastern Seaboard, and in the postwar, many thousands of miles of pipe have been laid, or are to be laid, to tap lush markets as far distant as California, Chicago, Detroit, Philadelphia and New York.

The phenomenal manner in which the natural gas industry is forging ahead is revealed by a few statistics. According to the National Industrial Conference Board, nearly 27 cubic miles of this gas was consumed in the United States last year, weighing 106 million tons and having a heat value comparable to 175 million tons of coal. In terms of cubic feet this represented 4.4 trillion cf for natural gas or about one-fifth of total estimated reserves back in 1925. Despite consumption of 51 trillion cubic feet in about three decades, however, proven reserves have expanded to more than 165 trillion feet, equal to about 30 years' supply at the current rate of consumption, and on balance they are still growing. As for pipeline construction, 5,370 miles of pipe laid last year

Statistical Summary of Natural Gas Companies

	Capitalization* $ Million			Operating Revenues $ Million		Net Per Share						
	Com.	Pfd.	Bonds†	1946	1947	1946	1947	6 mos. 1948	Div. 1947	Div. Yield	Recent Price	Price-Earnings Ratio
Arkansas Natural Gas "A"	$7.6	$21.8	....	$62.7	$86.3	$.39	$.80	....	Nil	....	$6	7.5
Columbia Gas System	122.3	....	$138.5	95.1	111.7	1.20	1.36	$.74	$.75	6.2%	12	8.8
Consolidated Natural Gas	49.1	....	.2	76.0	94.2	4.67	4.53	3.24	2.00	4.6	43	9.5
El Paso Natural Gas	2.1	10.0	62.5	8.5	10.5	3.64	5.13	6.52 b	2.40	3.5	68	13.2
Lone Star Gas	54.9	....	23.5	29.9	40.6	1.24	1.87	1.60	1.00	4.3	23	12.4
Oklahoma Natural Gas	12.4	9.0	22.7	15.4	17.2	2.70 a	3.30	4.55 c	2.00	7.7	36	10.9
Pacific Lighting	42.8	20.0	82.6	68.3	77.2	4.84	4.86	3.93 e	3.00	5.7	53	10.9
Panhandle Eastern Pipe Line	20.2	13.7	64.9	27.7	30.4	4.40	4.49	2.44	3.00	4.6	65	14.4
United Gas Corp.	106.5	....	113.2	63.3	77.0	1.09	1.50	.68	.85	4.5	19	12.6

*—Latest available.
†—Includes other long term debt.
a—Adjusted.
b—12 months ended August 31.
c—12 months ended July 31.
e—12 months ended June 30.

brought the total in the country to approximately 230,000 miles, and during the first half of 1948 another 3500 miles were added or approved by the Federal Power Commission.

These figures, though, fall far short of revealing further planned growth of the natural gas industry in the immediate future, hinging largely upon the available supply of pipe. The American Gas Association foresees probable capital outlays of some $2.6 billion by the natural gas companies during the next five years. To raise this large sum is likely to create some significant problems, for although perhaps $1 billion may become available through retained earnings, the remaining $1.6 billion must come from borrowing or sale of new stock issues. To judge from financing programs announced during the last two years, the emphasis upon loans in raising capital is going to be very heavy.

Significance of Financing Methods

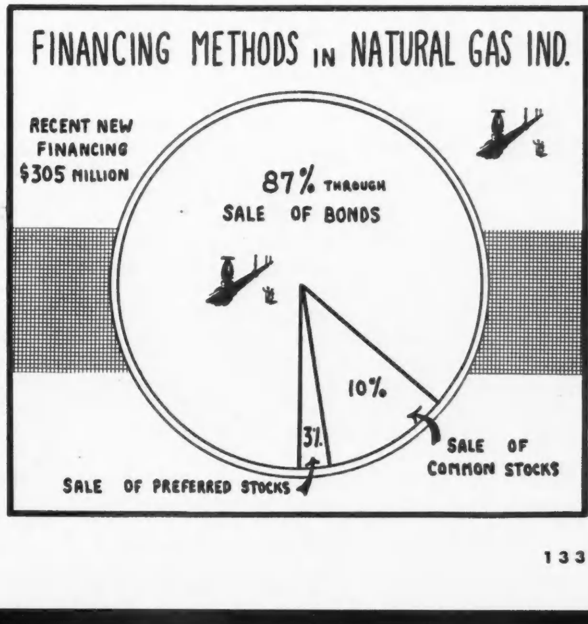
Because of easy money rates, large scale borrowing might seem to enhance the earnings potentials of related equities, but if the economy should enter a recessionary period later on, topheavy debt capitalization might cause trouble. Traditional proportions of capitalization considered sound for major utilities have been 50% bonds, 25% preferred and 25% common stock. Regardless of state restrictions on the return upon property valuations, such a capital setup has usually permitted accruals on the equities from perhaps 8% to 12%. With few exceptions many of the long established units in the natural gas industry have operated with not much more than 40% bonded debt, moderate amounts of preferred or none at all, and correspondingly larger amounts of common stock, thus putting themselves on a very sound financial foundation. In contrast, however, some of the important newcomers have started off with large funded debts that represent from 70% to 80% of their total capitalization, and with their equities accounting for from 13% to 22%.

In part responsible for these high loan ratios has been the sound investment merit of the funded debt, despite the fact that many of them, if not most, are mere construction loans. Fact is that long term contracts both for the purchase and sale of natural gas promise unusual stability in the operations of these newer concerns, compared with former practices dependent wholly upon supply and demand factors and varying rates. For this reason both banks and insurance companies have been generous in their credit policies where factual evidence was strongly favorable and the borrowers enjoyed high standing.

The Leverage Factor

Even where these advantages did not exist, though current poor markets conditions have deterred capital raising in the form of preferred stocks or by the medium of equity sales desirable as these courses might have been. Also, provided sufficient capital could be raised without dilution of the common stock, the element of leverage, supplying speculative attraction to the equities, has entered the picture, bolstering the courage of original investors in making relatively modest outlays at the start. Now arises a serious question as to whether the industry is not growing too fast for its own good or whether it can count upon financing its needs over the intermediate term unless its methods of raising capital are altered.

At the American Gas Association's annual convention in Atlantic City, Edmund M. Hanrahan, chairman of the Securities and Exchange Commission, revealed considerable anxiety over the manner in which the natural gas industry has been financing itself by heavy borrowing. Since the end of 1945, he pointed out, the older pipelines *(Please turn to page 145)*



Are Convertibles Now Attractive?

By J. S. WILLIAMS

Prices of many sound equities in the course of a year, after the inevitable ups and downs, have trended moderately upward, though the gain has been mainly achieved by developments in recent weeks. In contrast, however, quotations for senior securities, including both bonds and preferreds, have generally softened, though convertibles have been lagging somewhat less than the others. This raises a natural question as to whether under current market conditions the convertibles may have reached a buying zone, or whether their basic advantages are outweighed by other considerations.

The lure of relative safety, without loss of appreciation potentials, provides the fundamental attraction of convertibles as an investment medium. Placement of capital in senior securities breeds confidence in stable income and relatively well sustained values during poor times, and where this can be accomplished with a privilege of conversion into equities in highly prosperous periods, there seems much to gain and little to lose.

Unfortunately, the matter is by no means as simple as this brief statement might imply, for an investor desirous of purchasing convertible preferreds, for example, is usually faced with certain complexities that should be unravelled to determine his true status. At the start, he usually has to pay some kind of a premium for his conversion privilege, resulting often in a paring of the yield. Then in times when speculative enthusiasm may boost the price of the related equity to near or above parity for conversion of the convertible senior issue, the price of the latter frequently rises well above the price at which it may be called for redemption, hence exposing a holder to the risk of sudden loss.

Additionally, care must be taken by investors to ascertain the varying conversion terms. Frequently it will be found that conversion is permissible only within a restricted period or at graduated prices and/or on different terms as times passes. The par value of the two issues involved also has an important bearing, for to exchange a share of $100 par preferred for, say, two shares of common regardless of par value carries a different significance than if the senior stock had a par of only $50. Granted an intelligent understanding of all these essential details, major emphasis on the market status and appreciation potentials of the equities remains to be reached. It is here that good or poor judgment can make or mar progress of an investment program involving convertibles, for even if the safety factor seems incontestible, low yield over a period of years might prove burdensome unless the equities eventually live up to expectations.

The relative price volatility of convertible preferreds and their respective equities is very interesting to study. The general uptrend in interest rates during the last year or so accounts in a broad manner for the converse price decline for all securities with fixed interest or dividend rates. The added attraction of a convertible feature, though, has served to temper the downward price tendency of such issues, even when new issues were offered to the public. When prices for the common shares advance to a point where conversion of the preferred carries an automatic value, from then on in a rising market quotations for the senior issue cease to be influenced by considerations of either yield or redemption price. This is because arbitrage, or the purchase of the preferred at any discount from parity and the immediate sale of applicable common would produce a profit. Speculators are always on the alert to seize such opportunities and during active markets on the upside pay sizeable premiums for the senior stock, viewing their purchases as an option or call on the common.

Variable Price Pattern

When market conditions depress equity quotations to a point below parity or the progress of a given company has not warranted arrival of its equities at a proper price base, quotations for both the common and preferred tend to follow a variable pattern. To show how this operates, we append a table listing ten convertible preferreds of outstanding concerns, their conversion terms, their call price, par value, yields and recent prices for the common and preferred. Additionally, we show the percentage price gains and losses of both preferred and common stocks during certain periods in the recent past, for comparison adding changes in the Dow-Jones Industrial Average during the same intervals.

In making our selections we have purposely listed only concerns with equity prices not too far away from their parity point, for less interest attaches to many others we could cite where long waits

would be probable before the conversion privilege becomes of actual interest. Our statistics include only one preferred where parity has been reached, though in most cases the spread is relatively narrow. What lends interest to the picture, accordingly, is the relative volatility of these convertible preferreds, both up and down, regardless of general trends for interest rates, but with percentage gains and losses compared with those of their respective equities showing marked variation.

Financial Data on Convertible Bonds

	Conversion Rate*	Recent Price	Current Yield	Range 1948	% Gain 1947 Low-1948 High	% Loss 1948 High-To Date
American Tel. & Tel. Conv. Deb. 2¾/61	1 a	105½	2.57%	109 -101¾	8.0%	3.9%
American Tel. & Tel. Conv. Deb. 2¾/57	1 b	111⅝	2.49	116⅝-106¼	10.0	4.8
Consolidated Edison Conv. Deb. 3/63	4	107¾	2.78	110¾-106	10.7 c	3.0
Laclede Gas Light Conv. Deb. 4½/63	16	100	3.50	111½-100	11.5 c	3.5
Virginia Electric & Power Conv. Deb. 3⅛/63	6	109¼	2.88	112½-100	12.5 c	2.8
Dow-Jones 40 Bonds Index	.....	98½	......	101¼- 97	4.9	2.6

*—Number of shares of common per $100 bond.
a—Plus $50 cash.
b—Plus $40 cash.
c—From issue price of 100 in 1948.

Equally worthy of note is the higher degree of volatility generally indicated by both the senior stocks and equities compared with that of the Dow-Jones Industrial Average during identical periods. This would suggest that the speculative merits of convertible preferreds are by no means restricted to long term programs, as might be thought natural without study of the situation. In like manner it shows that with careful selection, convertible preferreds of unusually high investment rank might be obtained where the market behavior of the common has vigorous characteristics.

Some Specific Examples

Let's examine a few of our selections individually. Allis-Chalmers 3¼% cumulative convertible preferred, recently selling at 88, yields 3.7%. Shortly after these shares were issued about two years ago, they sold as high as 101½ before the downtrend in interest rates got under way. Now, at around 88, they are quoted well under their redemption price of 103. While the early postwar progress of the company was severely hampered by materials shortages and strikes, it is now doing a record peacetime business in all divisions, with exceptionally bright prospects for enduring prosperity. During the first half of 1948 net earnings were at an annual rate of $4.56 per share on the common, lending speculative appeal to the equities, lately selling at 34 compared with a 1947 high of above 42. The preferred may be converted at any time into 2 shares of common, thus placing the present conversion point at 44. As a ten point rise in the price of the common would be needed to reach this spot, the value of the conversion privilege presently is moderate but it might not take long to become substantial.

Burlington Mills 3½% Second Preferred

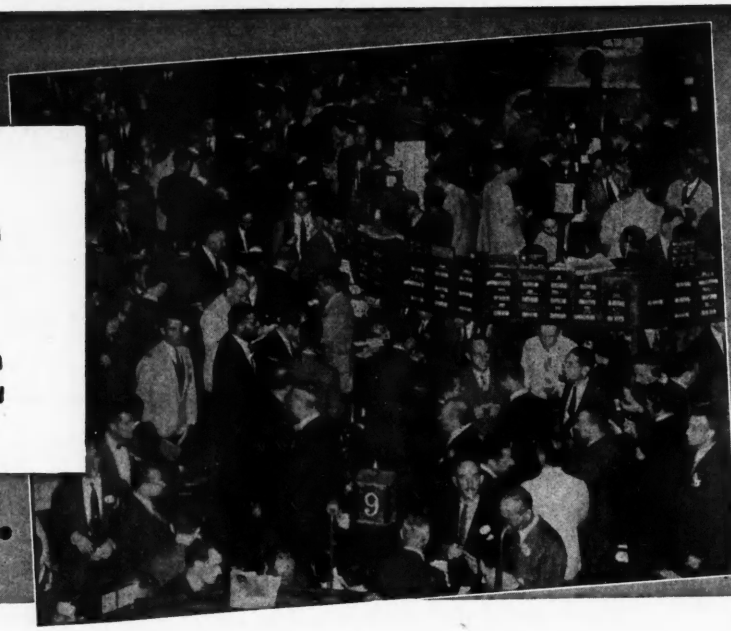
Burlington Mills 3½% second preferred, convertible into 4 shares of common prior to March 1, 1951, is interesting to study because the recent price of 89 is approximately attuned to quotations of 22 for the equities. Incidentally, this preferred was sold to shareholders and the public at 104 about 2½ years ago. The investment quality of the issue is apparent, for after allowance for dividends on senior preferred outstanding, net earnings available for the second preferred during 9 months of the company's last fiscal year equalled more than $200 per share. Burlington Mill's strongly entrenched position in the rayon and fabrics field is serving to sustain net earnings on the common (*Please turn to page* 149)

Statistical Data on Selected Convertible Preferred Stocks

	Conversion Rate*	Recent Pfd.	Price Com.	Present Conversion Point‡	Div. Yield	Call Price†	Par Value	% Gain 1947 Low-1948 High Pfd.	Com.	% Loss 1948 High-Sept. Low Pfd.	Com.	% Recovery Sept. Low-To Date Pfd.	Com.
Allis-Chalmers 3¼% Pfd.	2	$88	$34	$44	3.7%	$103	$100	8%	40%	14%	25%	5%	10%
Armstrong Cork $4 Pfd.	2	112	54	56	3.6	105½	No	18 a	48	5	14	2	10
Atlantic Refining 4% Pfd.	2.4	109	45	45	3.7	104½	100	8	62	6	28	2	25
Atlas Powder 4% Pfd.	1⅓	100	57	75	4.0	113	100	2	13	13	23	1	16
Burlington Mills 3½% 2nd Pfd.	4	89	22	22	3.9	105½	100	25	76	16	22	6	16
Carrier Corp. 4% Pfd.	1.6	38	16	24	5.3	53	50	21	78	16	24	6	8
Crown Zellerbach 4% 2nd Pfd.	3	102	29	34	3.9	102½	No	23	38	23	23	2	8
General Mills 3⅜ Pfd.	2	105	52	60	3.2	125	100	8	18	8	4	6	14
Monsanto Chemical $3.25 Pfd.	2	110	54	55	3.0	104½	No	10	25	17	23	9	14
Pennsylvania Salt Mfg. 3½% Pfd.	2½	105	40	42	3.3	104	100	20	26	12	22	.....	6
Dow-Jones Industrial Average			190						18		9		8

*—Number of common shares into which one preferred share may be converted.
‡—Point at which common would have to sell above for conversion to be profitable.
†—For current year—varies slightly in subsequent years.
a—Issued 1948.

FOR PROFIT AND INCOME



Politics

In Presidential election years, November has been a good month for the stock market more often than not. For such Novembers, here are the net changes in the Dow-Jones industrial average over a period of nearly half a century: 1900, up 12.8%; 1904, up 14.0%; 1908, up 5.1%; 1912, up less than 1%; 1916, up 1.3%; 1920, down 10.5%; 1924, up 7.0%; 1928, up 16.2%; 1932, down 9.0%; 1936, up 3.4%; 1940, down 2.7%; 1944, up less than 1%. All that the record indicates is that when the market is bullish anyway, it responds more sharply to election of a Republican President than to that of a Democrat. When the basic factors are bearish, the market declines, regardless of how the election goes. Note that in this record the biggest November advance was 1928 after election of Republican Hoover, the biggest decline in 1920 after election of Republican Harding.

Forecast?

The recent improvement in stock prices raises the question whether the market is "forecasting" something of significance. The truth is that the market's so-called prophetic vision is not always what it is cracked up to be. The market is simply the consensus of the judgments, hopes and fears of all investors and speculators, none of whom can see around any corner. The more emphatic is optimism or pessimism —as reflected in uncommonly high or low stock prices — the more likely is it to be wrong. What was the market forecasting in early September, 1929, when the Dow industrial average hit 381? Certainly not the deflation of 1930, 1931 and 1932. What was it forecasting in July, 1932, at 42, when our economy, on superficial inspection, seemed to have no future? Since mid-1946 the market has gone through up and down swings ranging in several instances from 20 points to nearly 50 points (the 1946 break) in the industrial average — throughout which period the postwar industrial boom has continued, with aggregate earnings and dividends rising. Chances are that this time the market may be on the right tack.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Acme Steel	Sept. 30 quar.	$1.67	$1.41
Air Reduction	9 mos. Sept. 30	1.72	1.48
Anderson-Prichard Oil	9 mos. Sept. 30	5.29	2.41
Barium Steel	9 mos. Sept. 30	1.02	.60
Budd Co.	9 mos. Sept. 30	2.01	1.23
Central Foundry	9 mos. Sept. 30	1.32	.66
Mission Corp.	9 mos. Sept. 30	2.25	1.22
Norwich Pharmacal	Sept. 30 quar.	1.09	.40
Pond Creek Pocahontas	9 mos. Sept. 30	7.65	4.04
Reeves Bros.	Sept. 30 quar.	1.01	.67

War and Peace

On the matter of war, the market's forecasting record has been generally bad in our time. It was caught by surprise when the First World War broke out in July, 1914. When the Second World War started there was little or no surprise, in view of Hitler's previous threatening moves; but the market consensus was wrong nevertheless. It was that we would stay neutral and profit out of exports, while France (supposed to have the finest army in the world) and England would lick the Germans. Stocks rose rather sharply in the autumn of 1939, then flattened out for several months in the period when, with neither side striking in the West, there was talk of "phoney" war. The market was firming gradually, leading the technically-minded to believe the "signs" pointed upward, for several weeks just before the Germans broke through into the Low Countries.

Then the industrial average nose-dived about 40 points in ten days. This column has thought all along that, in the present instance, war is improbable; and it thinks that a change of much consequence in 1949 business is unlikely—both of which the market now seems to forecast.

Earnings

The third quarter earnings reports are decidedly mixed. However, total earnings for the period seem quite likely to set an all-time quarterly high; and there is every reason to believe that results for the fourth quarter will be equally good, perhaps a little better, assuring a record year. Total dividends are still rising, and we have already entered the period of year-end extras, with such payments likely to exceed those of a year ago by a fair margin. There is no surprise in any of this. What is new is not bullish earnings and dividend news, but a bullish market response thereto. Individual stocks have been getting a stimulus, for the first time in some months, from good earnings reports or dividend boosts. When the reports are poor, no great damage is done, for in most such cases the stocks affected have already been pretty well deflated by informed selling over an extended period.

Rails

The industrial list, broadly speaking, is doing the work in the market's rise, with rails and utilities slow. However, the rail average is close enough to last summer's recovery high to make it possible that it could be "dragged" up to a new top. A new high by even a small margin would suffice to satisfy "Dow Theory bulls." There have been times for months on end when industrials got along well without much, if any, positive help from rails. Given a "confirmatory" new high in rails, following a new top by industrials, all that is then required is that the rails refrain from falling out of bed.

Utilities

It is a paradoxical fact that utility earnings would be improved by a moderate business depression. The industry is having to use stand-by steam generating facilities, mostly old and inefficient, to meet the present record demand. Hence, much industrial power, which carries low rates, is being sold below cost. A moderate depression would reduce the industrial load, without affecting the more profitable residential and commercial volume; and the latter could be served with little or no resort to costly stand-by equipment. Therefore, earnings would rise. But a depression is not in sight. Earnings will remain steady, at a level providing rather modest dividend coverage in most cases. Many of the stocks offer relatively attractive yields for income-investment. The basis for dynamic market action is presently absent.

Mixed

Although the industrial section as a whole has risen to within close striking distance of the peak of last June, the movement so far remains quite mixed. Steels have provided the outstanding market leadership. Other relatively favored groups include aircraft, automobiles, chemicals, cement stocks, coppers, chemicals, baking and milling stocks, mining and smelting, oils and tires. The laggards are too numerous to list. The movies and gold stocks remain very near the year's lows, the air line and liquor stocks but modestly improved.

Motors

As regards the supply-demand situation in this industry and excellent earnings, the automobile stocks are comparable to steels; and so far have had considerably less market exploitation. If there is a further market rise, steel stocks can hardly be the only spectacular performers. The auto stocks would logically seem to be among the groups best situated to "take the ball" if the game is to be kept exciting. This column's speculative choice would be Studebaker, now selling at less than four times estimated 1948 earnings of $7 a share. Chrysler will earn around $8 a share this year, General Motors probably near $9 a share. In both cases, dividends are at a $4 rate. On earnings-dividends, these two stocks are priced relatively conservatively. There has always been a bigger appreciation potential in Chrysler than in GM, and probably still is; although it may have been somewhat reduced by the 1947 two-for-one split of the shares.

Chemicals

Some of the chemical stocks, especially those of companies which are still in a dynamic growth trend, strike this column as quite reasonably priced from a long term investment perspective. Among the general (broadly diversified) companies, Dow Chemical has had by far the greatest growth of sales since prewar, Monsanto Chemical next, Union Carbide third. In growth potential for the next several years Dow, still a medium-sized company as leading chemicals go, is probably also in the top spot. This stock, Mathieson Chemical and Union Carbide are the only ones in the group which have not only made new 1948 highs on the recent market upswing but also bettered their 1946 bull-market highs.

Cement Stocks

This column continues to regard building stocks in general as an "in between" group, not among the best to hold for the remainder of the boom, and not among the worst. Companies almost wholly

(*Please turn to page* 148)

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Brake Shoe & Foundry	9 mos. Sept. 30	$2.78	$3.28
Anchor Hocking Glass	12 mos. Sept. 30	4.11	4.62
Atlas Powder	9 mos. Sept. 30	2.91	4.92
Best Foods	Sept. 30 quar.	.92	1.69
Century Electric	9 mos. Sept. 30	2.31	3.85
Corn Products Refining	9 mos. Sept. 30	2.40	4.67
Rheem Mfg.	9 mos. Sept. 30	2.40	2.60
Sutherland Paper	9 mos. Sept. 30	4.66	5.10
Thomas Steel	9 mos. Sept. 30	3.84	4.04
United Cigar-Whelan Stores	9 mos. Sept. 30	.18	.16

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Avco Manufacturing Corporation

"Please advise what products Avco Manufacturing Corporation produces, recent profits and dividends."

G. A., Jewell, Oregon

Avco Manufacturing Corporation reported consolidated net income for the nine months ended August 31, 1948, after all charged including Federal taxes, of $5,323,079, equal after preferred dividends to 74 cents per common share. This compares with net income of $4,622,314, or 63 cents per common share, for the first nine months of the 1947 fiscal year. Consolidated net sales for the nine months ended August 31, 1948, amounted to $98,957,139, as compared with $76,395,205 for the same period of 1947. Company sales and earnings from manufacturing operations are running at the highest rate in its 20-year history.

Avco's operating divisions and products include: Crosley—radio, television, refrigerators; New Idea—farm equipment; American Central—kitchen sinks and cabinets; Spencer Heater—commercial and residential boilers; and Lycoming — aircraft engines. Consolidated subsidiaries include Crosley Broadcasting Corporation, operators of WLW and WLWT at Cincinnati and WINS in New York, and the Nashville Corporation, builders of transit buses for the ACF-Brill Motor Company and ranges and home freezers for Crosley.

Not included in consolidated net income are ACF Brill and New York Shipbuilding Corporation, both of which are Avco associated companies. Balance sheet as of August 31, 1948 showed total current assets of $49,113,176 and total current liabilities of $16,732,214, leaving net current assets of $32,380,962. Dividend payments this fiscal year amount to 40 cents per common share. Prospects for the balance of the year appear favorable.

May Department Stores

"Please advise on recent volume of operation, profits and dividends of May Department Stores."

L. F., Seattle, Washington

Consolidated sales of the May Department Stores and subsidiaries reached new highs for the six months and the twelve months ended July 31, 1948. Sales for the six months totalled $183,321,000 and for the twelve months were $382,617,000. These figures were unaudited.

Consolidated net profit after taxes was $6,475,000 for the first six months of the current fiscal year. After preferred dividend requirements, this is equal to $2.11 per share on the average number of shares of common stock outstanding. For the twelve months ended July 31, 1948, consolidated net profits, after taxes, amounted to $17,155,000, or $5.82 per share after allowing for dividends on preferred stocks. The company's earnings as reported above were determined on the last-in-last-out inventory valuation basis. The earnings per share on the common stock for the six months and twelve months on a first-in first-out basis would have been $2.21 and $6.62, respectively. One the Lifo basis, the earnings for the six months ended July 31, 1947 were $2.41 per share and for the year ended July 31, 1947, were $5.99 per share. Dividend payments of 75 cents per common share were paid in each of the first three quarters of the current year and this rate is expected to continue in coming months.

May operates ten large modern department stores and eight smaller units. Sales have increased at a faster-than-average rate during the past ten years and operations are highly efficient.

Duplan Corporation

"Please report recent annual earnings and dividends of the Duplan Corporation."

T. J., Pittston, Pa.

The Duplan Corporation reported a 22% increase in annual sales for the fiscal year ended May 31, 1948 to $35,496,560. Net income of $3,387,515 was 61% more than the previous year, this was equal to $4.36 per share on the 776,985 shares of common stock outstanding.

Company is now reaping the benefits from recent expenditures of almost $7 million on new equipment and new plants. Fabric sales were 22% greater and yarn throwing sales 26% more.

The company further expanded its operations in Canada by exchanging 40,000 shares of stock for the remaining 40% ownership in the M. E. Binz Company Limited. It previously owned 60%. Canadian mills have been modernized and sales increased to $7 million. Combined United States and Canadian company sales amounted to $42,500,000 for the year.

Net sales for the first quarter current fiscal year to August 31, 1948 amounted to $10,369,000 and net profit was $1,306,820,

(Please turn to page 148)

Keeping Abreast of Industrial and Company News

A new electronic marvel has made its appearance. This is called "Ultrafax" by means of which it may ultimately be possible to send and receive graphic and written material at the speed of 1,000,000 words a minute. In preliminary tests the entire contents of "Gone with the Wind"—475,000 words on 1,074 pages —was flashed, page by page, by television and reproduced by high-speed photography methods in exactly two minutes and twenty-one seconds. This device was developed by **Radio Corporation of America, Eastman Kodak,** and the **National Broadcasting Company.**

Production of a new type of streptomycin for use in the treatment of tuberculosis is announced by **Merck & Co.** This new product is the most promising drug yet found for the treatment of tuberculosis and leprosy, in addition to its effectiveness against a host of other bacterial infections. Full-scale production will be started as soon as facilities are available.

The **office equipment industry** is tackling the last frontier available for mass production—the business office. Among the various machines recently exhibited is an electric collator which relieves the office worker of the tedium of collating hundreds of sets of papers and does it at a volume and speed far beyond human capacity. Another device types complete letters, from heading to conclusion, without manual attention.

The new "cold rubber" is about to go into heavy production. Tires made from it are said to be running nearly a third more miles than those of the regular synthetic. Continuing research promises further improvement, although technical difficulties will prevent mass production for some time. **Goodyear Tire & Rubber** will make the new tire.

Outdoor boiler installations, once an object of managerial skepticism, have now won an important place in the expansion plans of steam-electric utilities, according to **Babcock & Wilcox.** Their value and attractiveness have been enhanced by their compactness, which permits use of less construction material, such as steel, and generally calls for smaller operating staffs than do the traditional types.

A revolutionary process of **inkless printing** has been developed that might completely change all the operations of the printing and publishing industry. Invented by C. F. Carlson of New York and known as "Xerography," it reproduces pictures and text at a speed of 1,200 feet a minute, on any kind of surface, within forty-five seconds after exposure of the photographed subject. It uses only dry powders, and no wet chemicals or ink in the process.

A frequent cause of disastrous aircraft fires has been eliminated with the development of a non-inflammable fluid to actuate landing gear and other airplane controls, the **Douglas Aircraft Company** and the **Monsanto Chemical Company** have reported. Developed after two years of joint research, the new fluid is called "Skydrol." It will be available for purchase at all airports within a few months.

The **Borden Co.** is placing into operation a new $4,000,000 soybean solvent extraction plant which will process 550,000 bushels of soybeans daily, from which it will produce 50,000-55,000 pounds of soybean oil. This diversification is expected to give the company greater opportunity for growth and progress.

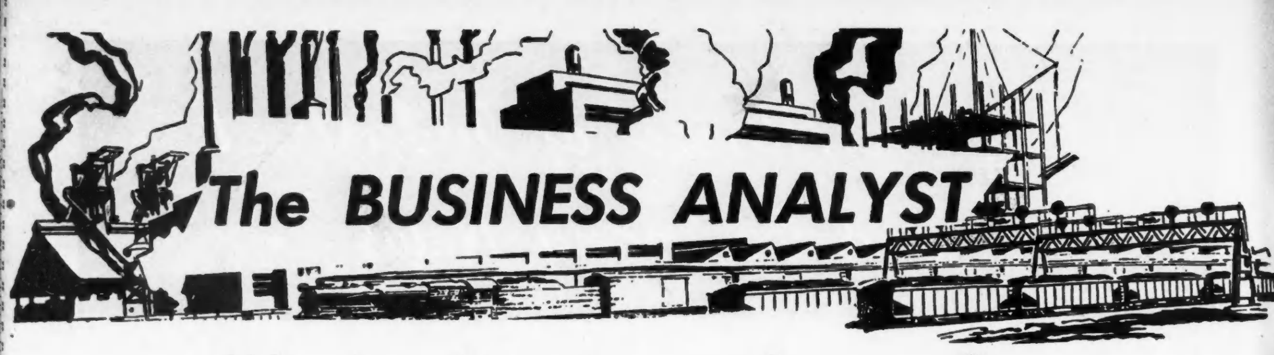
The world's largest automobile manufacturer is prepared to make cars that would use 40 per cent less gasoline than those now in use. While re-tooling is already in progress, it may be some time before such cars are on the market, owing to the lack of the type of fuel that is now available only at airports. However, **General Motors** is moving toward this greater efficiency and has already done preliminary work on the new Oldsmobiles and Cadillacs.

Westinghouse Electric Corporation will substantially increase its appliance production in 1949, according to J. H. Ashbaugh, vice president. He states that the company looks for excellent business next year and expresses confidence that it could get enough steel for the higher production schedules. An attempt will be made to hold prices at present levels, provided production costs are kept down by maximum worker efficiency.

Adaptation of **Cooper-Bessemer's** Turboflow development to the four-cycle gas engine, an improvement that produces 14 per cent more power while cutting costs by at least 20 per cent, has been achieved by the company's engineering division. Believed to be one of the most significant developments in the gas engine field in 20 years, it should prove a boon to communities, farm cooperatives and other power users, particularly in the southwestern United States where natural gas is plentiful and cheaper than any other fuel.

A process that will lock an effective mildew-preventing chemical into linens has been announced by **Monsanto Chemical Company.** The new process, a modification of an old method for fire-proofing textiles, will treat three hundred pounds of laundry for a few cents. It can easily be meshed with normal commercial laundry washing procedures.

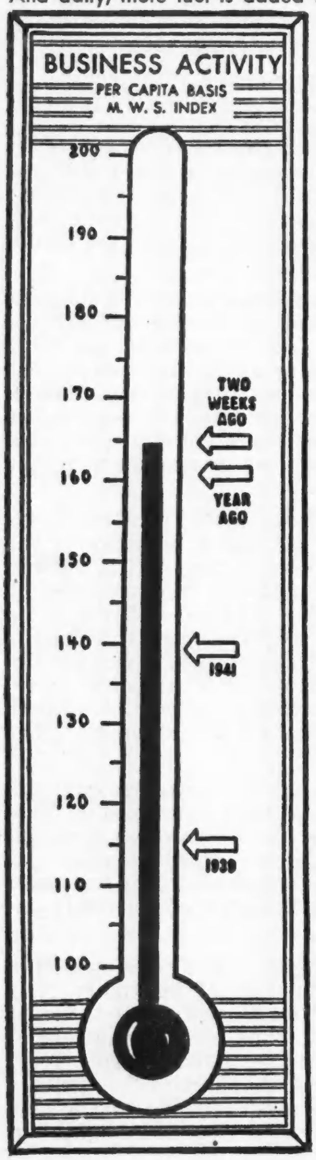
General Electric researchers have come up with a suggestion for the elimination of lightning. They advocate the use of dry ice to transform towering cumulus clouds into snow. Thus, they say, instead of growing into highly unstable thunderstorms, from which lightning is produced, the cumulus clouds either would precipitate out as snow or rain or would become cirrus or snow clouds, which do not produce lightning.



What's Ahead for Business?

By E.K.A.

Few things recently have stirred up such acrimonious discussions as the monetary policies of our economic managers. And daily, more fuel is added to the fire. Thus the Federal Reserve Board in its latest monthly bulletin restates the case for the need of some curb on bank credit inflation, admitting that it hasn't been able to throttle inflationary forces with a fifteen-month check on credit expansion. Fed by purchases with borrowed money, these forces still dominate the economy and are in a position to surge forward, woefully states the Board.



There is no doubt that the postwar expansion which is still proceeding apace — aided by the heavy loans to industry by the big insurance companies, is making possible the spending of a lot more money than otherwise would be the case. In making the foregoing statement, the Board clearly is preparing the public and the banks for another boost in bank reserve requirements, which in turn may force the banks to find another $1\frac{1}{2}$ billion to be sterilized in the Reserve System.

Naturally any such call, if and when it is made, will no doubt be met, as was the most recent one, with the sale of Government securities to the Federal Reserve; in other words the latter will have to put up the money under the bond support system—something that in itself is highly inflationary. But as in the past, the move won't really stop inflation, unless accompanied by lower bond pegs which appears little likely at this time.

Business, in fact, need hardly be afraid of any drastic anti-inflationary action. Lending resources will remain plentiful despite any foreseeable efforts at restraint. Much greater cause of concern is the way certain prices have resumed their upward trend; another round of metal price increases appears definitely in the making, meaning higher prices for durable goods.

Unlike previous periods when sharp prices moves occurred, the current uptrend is somewhat gentler but its ultimate impact will prove no less painful to the consumer. More recently, the price of zinc and aluminum was marked up, and premiums are still being paid on imported lead. Copper is extremely strong pricewise and would readily rise if producers would "pull the plug." Even ordinary carbon steels, and certain ferro-alloys, are going higher. Basic trouble of course are the shortage conditions in the metal field; metal consumers have shown little hesitation in bidding up prices wherever metal was available.

Current advances, and those yet to be expected, will soon be passed on to the wholesaler, retailer and consumer, and manufacturers are wondering what it will mean in the way of further stiffening price resistance already marked in most durable consumer goods. Well sustained sales of the latter bulk importantly as a stabilizer in the prospective business and economic pattern; if they fall off considerably, it would mean that trade would have to drop below last year's level as there is no assurance of a fully compensatory increase in soft goods.

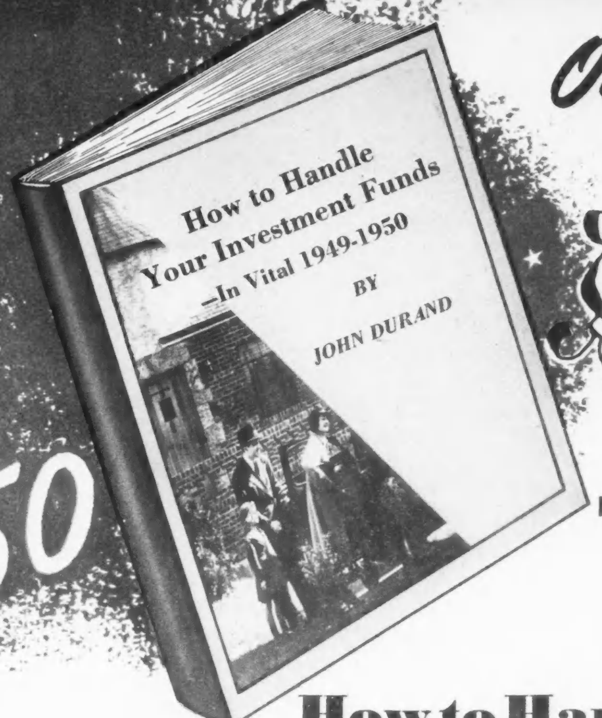
Retail business this year has held up with the help of substantial durable goods sales and these are no longer increasing, even declining in part. If durable goods buyers are further priced out of the market, trade is bound to suffer. Only hope would be a re-channelling of purchasing power into soft goods lines. Retailers, it seems, are trying hard to boost this right now, and not without success. It's a trend worth watching, this battle between hard and soft goods for the consumer dollar.

Industrial Output Holds Up

Speaking of business, the Federal Reserve Board reported that industrial production held in September to the same level as in August, or slightly below the peace-time record high last February. The Board's production Index was maintained at 91% above the 1935-39 average, duplicating the August figure. The February record was 94% above prewar.

There is reason to believe that the figure in October will continue to inch closer to the February peak. Industrial activity continues at a tremendous pace; steel production in October probably broke all peace-time records with a corresponding spurt in activity in metal-consuming lines including the steel-starved auto industry which currently gets enough steel to maintain an excellent rate of operations—frequently producing as high as 120,000 units weekly. While not a record, such output figures have been infrequent since the war.

Extra Help for 1949 and 1950



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The Business Analyst

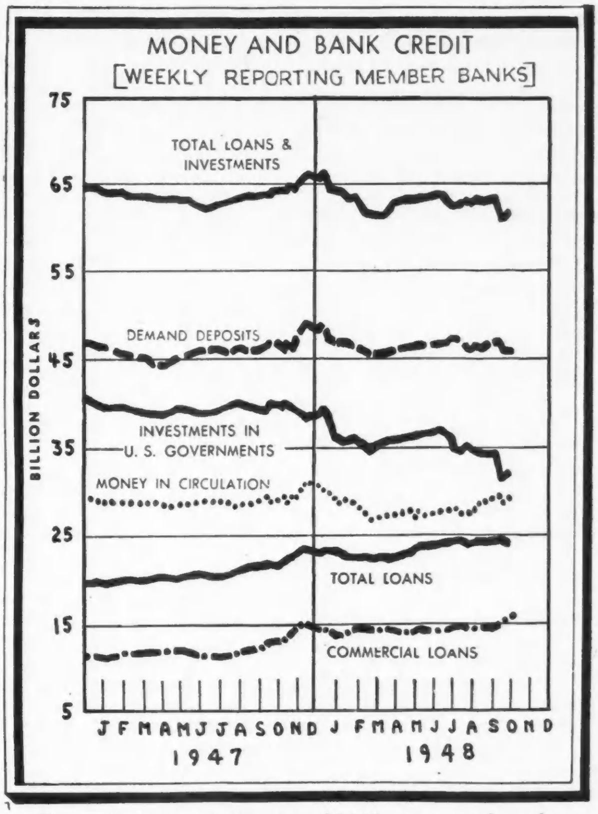
HIGHLIGHTS

MONEY AND CREDIT—Common stocks rise with expanding volume, as investor-trader confidence rises under hopes that the Russian bear may quiet down for awhile, and in response to Washington forecasts of more inflation and continued business prosperity. Softness in aircraft issues in face of strong uptrends elsewhere reflected a supposed easing of tension between East and West which failed to find confirmation in the market for foreign government dollar bonds, which slipped back to the lowest level in six weeks. High grade rail bonds were weak under expectation of another rise in interest rates and reserve requirements which awaits only Treasury approval. In keeping with bureaucratic tradition, the E. C. A. and the air force are already preparing to ask the next Congress for bigger appropriations. The French franc has just been devalued a second time in another effort to promote exports and discourage imports. The result will probably be similar to last time—another boost in French costs and prices.

TRADE—August retail store sales 8% above last year, with durables up 29%; but non-durables only 0.4%. As retail prices meanwhile had risen a trifle more than 8%, there was little change in the physical volume of business done. Department store sales, on the other hand, expanded to 11% above last year during the fortnight ended Oct. 16, compared with a cumulative gain of only 7% for year to date.

INDUSTRY—Business activity showed a slight contraction during the fortnight ended Oct. 16; but margin of increase over last year widened to 4%. Corporate sales in second quarter 13.8% above last year. Utility earnings take turn for the better during third quarter. Rail earnings for eight months up 41%. Unions prepare demands for shorter hours and a fourth round of wage increases next year.

COMMODITIES—Futures recover sharply; but M. W. S. index of raw materials spot prices continues to sag, despite half-cent advance in zinc.



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Business Activity sagged slowly during the fortnight ended Oct. 16; but the decline was somewhat less than a year ago, so that the margin of increase over last year widened to 4%. The M. W. S. Business Index is now 2.5% below its all-time high touched during the week ended June 26, this year.

* * *

The number of non-farm dwelling units started during September was 13% under the like month last year, compared with a cumulative increase of 18% for nine months. Striking a somewhat more encouraging note, we learn that the amount spent on factory **Construction,** after declining for 20 months, picked up during September for the second consecutive month. Amount spent in September, however, was still 14% below the like month last year, despite considerably heavier costs.

* * *

Freight Car deliveries in 9 months totaled 84,150—103% more than in the like period last year. Installations for 9 months were 77,848, which was 31% more than the number retired. Greatest shortage now is in gondola cars, of which only 310,000 were in service on Sept. 1, compared with 330,000 on Jan. 1, 1947. Freight cars ordered (one of the more significant business barometers) during the first nine months numbered 19% less than in the like period last year. Backlog of unfilled orders as of Oct. 1 was 6% smaller than for the like date a year earlier.

* * *

The nation's **Retail Stores** sold 8% more goods and services in August than a year earlier. Sales of durables rose 29%; but nondurables were up only 0.4%. Since retail prices rose a little more than 8% during the 12 months ended August, the actual physical volume of goods and services moved was apparently barely equal to that of a year earlier.

* * *

On the other hand, **Department Store Sales** in the fortnight ended Oct. 16 managed to top last year by 11%, compared with a cumulative gain of only 7% for the year to date. As usual, the changes were far from uniform. In the Cleveland reserve district, sales were up 16%, making a cumulative increase of 10% for the year to date; whereas in the San Francisco district they were off 3%, compared with a cumulative gain of 4%.

* * *

The SEC reports that sales by 1,276 **Corporations** during the second quarter totaled $27.6 billion—13.8% ahead of the like period last year. Sales by oil refining companies were up 39.4%, and of agricultural implement makers 35.7%. At the other extreme, sales by distillers were down 7.4%, and those of meat packers 8%.

* * *

The Agriculture Department predicts that output of **Farm Equipment** this year will top the previous record set in 1947 by 15%, and hold at peak levels next year.

* * *

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Sept.	0.97	1.04	1.06	1.55
Cumulative from mid-1940	Sept.	372.5	371.6	359.7	13.8
FEDERAL GROSS DEBT—$b	Oct. 20	252.3	252.3	259.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Oct. 13	46.6	46.5	46.9	26.1
Currency in Circulation	Oct. 20	28.2	28.3	28.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Oct. 13	7.99	8.08	7.09	4.26
93 Other Centers—$b	Oct. 13	12.45	12.58	11.20	7.60
PERSONAL INCOMES—$b (cd3)	Aug.	217	215	193	102
Salaries and Wages	Aug.	139	136	124	66
Proprietors' Incomes	Aug.	50	51	43	23
Interest and Dividends	Aug.	17	17	16	10
Transfer Payments	Aug.	11	11	10	3
(INCOME FROM AGRICULTURE)	Aug.	26	27	20	10
CIVILIAN EMPLOYMENT—m (cb)	Sept.	60.3	61.2	58.8	51.8
Agricultural Employment (cb)	Sept.	8.7	8.4	8.7	8.8
Employees, Manufacturing (lb)	Aug.	16.5	16.2	16.0	13.8
Employees, Government (lb)	Aug.	5.7	5.6	5.3	4.6
UNEMPLOYMENT—m (cb)	Sept.	1.9	1.9	1.9	3.8
FACTORY EMPLOYMENT (1b4)	Aug.	161	158	158	47
Durable Goods	Aug.	186	185	182	175
Non-Durable Goods	Aug.	143	138	139	123
FACTORY PAYROLLS (1b4)	Aug.	375	360	332	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	Aug.	40.0	39.9	39.8	40.3
Hourly Wage (cents)	Aug.	134.5	133.2	123.6	78.1
Weekly Wage ($)	Aug.	53.86	53.08	49.17	32.79
PRICES—Wholesale (1b2)	Oct. 16	164.8	164.6	157.9	92.5
Retail (cdlb)	Aug.	196.2	195.1	181.4	116.2
COST OF LIVING (1b3)	Aug.	174.5	173.7	160.3	110.2
Food	Aug.	216.6	216.8	196.5	113.1
Clothing	Aug.	199.7	197.1	185.9	113.8
Rent	Aug.	117.7	117.3	111.2	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	10.55	10.72	9.78	4.72
Durable Goods	Aug.	3.27	3.19	2.53	1.14
Non-Durable Goods	Aug.	7.28	7.53	7.25	3.58
Dep't Store Sales (mrb)	Aug.	0.76	0.69	0.67	0.49
Retail Sales Credit, End Mo. (rb2)	Aug.	6.79	6.68	4.92	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Aug.	259	246	231	181
Durable Goods	Aug.	315	291	261	221
Non-Durable Goods	Aug.	225	219	213	157
Shipments (cd2)—Total	Aug.	338	308	287	187
Durable Goods	Aug.	370	333	301	227
Non-Durable Goods	Aug.	320	294	279	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	Aug.	52.6	51.7	45.9	28.9
Manufacturers'	Aug.	30.4	30.2	27.0	16.7
Wholesalers'	Aug.	8.2	8.0	7.1	4.1
Retailers'	Aug.	14.0	13.5	11.8	8.1
Dept. Store Stocks (mrb)	Aug.	2.2	2.1	1.9	1.4
BUSINESS ACTIVITY—1—pc	Oct. 16	164.4	164.9	161.3	141.8
(M. W. S.)—1—np	Oct. 16	186.8	187.3	179.8	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 141)

Production of **Television** and **FM** radio sets hit new highs in September. Output of television receivers numbered 88,195, making 488,133 for nine months; while FM set production reached 171,753, for a nine-months' total of 1,052,933.

* * *

Electric Utility net earnings, which were running below last year during the first half, picked up enough during the third quarter to show an estimated increase of 7.5% over the corresponding period last year. This reduces the decline to less than 1% for nine months, and encourages hope that net for the calendar year may approximate the record high reported for 1947. Main reason for the sharp pick-up in earnings for the third quarter was improved water supply at hydro-electric plants. The situation there, however, has deteriorated of recent weeks, owing to the late summer drought.

* * *

Estimated net income for Class I **Railroads** for eight months totaled $421 million, compared with only $298 million in the like period last year prior to the series of rate increases which started in October, 1947. For 12 months ended Aug. 31, the rate of return on property investment averaged 3.94% this year, against 3.69% last year.

* * *

The railroads have asked the I. C. C. to grant an immediate increase of 8% in **Freight Rates** to offset increased costs since the last increase, plus an additional 5% rise to cover recent and pending wage increases. The Commission has just rejected a petition of eastern railroads for rate advances on L. C. L. freight, holding that this would "disrupt the long standing relations between the rates on less-than-carload and carload traffic."

* * *

The United Mine Workers have prepared a campaign for a fourth post-war round of **Wage Increases** when dickerings for the 1949 contracts are opened next spring. They will demand a 7-hour day and 35-hour week with the same take-home pay now received for an 8-hour day and 40-hour week. On top of this, they want a 50% increase in vacation pay and length of the vacation period, and a boost of 50% to 100% in the per-ton royalty tax on coal.

* * *

Other powerful unions will probably, as usual, take their cue from prince Lewis (whose salary has just been doubled to $50,000 a year plus) and demand a **Shorter Work Week.** A. F. of L. craft

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	Sept.	196	191	187	174
Mining	Sept.	154	159	153	133
Durable Good Mfr.	Sept.	223	222	217	220
Non-Durable Good Mfr.	Sept.	178	176	172	151
CARLOADINGS—t—Total	Oct. 16	914	892	954	833
Manufactures & Miscellaneous	Oct. 16	420	408	433	379
Mdse. L. C. L.	Oct. 16	111	112	122	156
Grain	Oct. 16	52	49	56	43
ELEC. POWER Output (Kw.H.)m	Oct. 16	5,482	5,482	4,946	3,267
SOFT COAL, Prod. (st) m	Oct. 16	12.0	11.8	12.7	10.8
Cumulative from Jan. 1	Oct. 16	462	450	488	446
Stocks, End. Mo.	Aug.	64.0	58.1	47.2	61.8
PETROLEUM—(bbls.) m					
Crude Oouput, Daily	Oct. 16	5.6	5.5	5.3	4.1
Gasoline Stocks	Oct. 16	91	91	81	86
Fuel Oil Stocks	Oct. 16	79	78	58	94
Heating Oil Stocks	Oct. 16	79	78	61	55
LUMBER, Prod. (bd. ft.) m	Oct. 16	532	521	542	632
Stocks, End Mo. (bd. ft.) b	Aug.	6.6	6.3	6.0	12.6
STEEL INGOT PROD. (st.) m	Sept.	7.41	7.44	6.80	6.96
Cumulative from Jan. 1	Sept.	65.0	57.6	62.7	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Oct. 21	129	170	142	94
Cumulative from Jan. 1	Oct. 21	5,746	5,617	4,597	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Oct. 16	186	214	162	165
U. S. Newsprint Consumption (st)t	Sept.	441	411	400	352
Do., Stocks (mpt), End Month	Sept.	568	577	573	523
Motor Vehicles, Factory Sales—t	Aug.	461	474	349	352
Cigarettes, Domestic Sales—b	Aug.	34.1	27.2	28.9	17.1
Whiskey, Domestic Sales (tax gals.)m	Aug.	4.0	3.2	3.4	8.1

PRESENT POSITION AND OUTLOOK

unions, along with the C. I. O. rubber workers and United Shoe Workers, will surely follow the lead; but C. I. O. steel and auto workers are at present more interested in pressing for a guaranteed **Annual Wage.**

* * *

The Bureau of Agricultural Economics thinks it a possibility that government spending (and, it might have added, a fourth round of wage increases) may cause some further price **Inflation,** probably limited to non-farm products.

* * *

As if encouraged by this prediction, **Zinc** producers, fortified by the present tight supply-demand situation have just advanced the price of zinc by 1/2 cent a pound, on top of previous advances this year totaling 4 1/2 cents. The price is now 15 1/2 cents a pound, basis East St. Louis.

* * *

A small producer of **Lead** has also raised his price a bit. Other producers are still holding back at present writing; but as Mexico, about half of whose output is shipped to the U. S. A., has just lifted the price 3/4 cent to users outside the U. S., it may not be long before all domestic producers fall in line. They are already paying premiums for other foreign metal.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

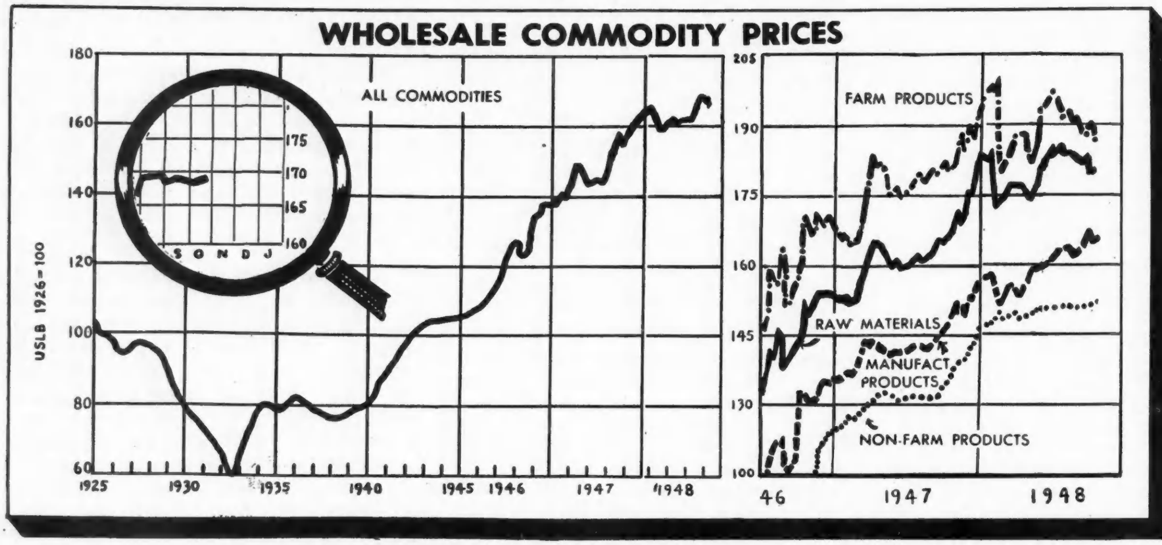
No. of Issues (1925 Close—100)	1948 Indexes High	Low	Oct. 16	Oct. 23
312 COMBINED AVERAGE	151.9	119.0	136.4	141.6
4 Agricultural Implements	240.1	178.8	212.7	222.5
11 Aircraft (1927 Cl.—100)	193.5	134.3	179.7	179.4
6 Air Lines (1934 Cl.—100)	515.6	368.7	368.7e	435.5
6 Amusement	106.8	73.5	73.5d	77.7
13 Automobile Accessories	224.1	171.1	201.1	209.3
12 Automobiles	41.3	31.4	33.6	35.1
3 Baking (1926 Cl.—100)	21.9	16.4	19.4	20.5
3 Business Machines	297.1	224.7	265.6	269.6
2 Bus Lines (1926 Cl.—100)	168.4	133.4	137.3	142.4
5 Chemicals	267.1	221.6	240.7	250.0
2 Coal Mining	26.9	14.7	24.0	24.4
4 Communication	56.1	42.3	43.5	46.0
13 Construction	71.5	56.6	60.5	64.1
7 Containers	346.0	274.8	284.4	299.7
9 Copper & Brass	119.1	92.0	103.8	108.5
2 Dairy Products	60.2	50.7	55.3	57.7
5 Department Stores	71.9	53.9	62.3	62.8
6 Drugs & Toilet Articles	184.4	147.4	151.2	157.4
2 Finance Companies	268.3	199.4	253.5	256.8
7 Food Brands	177.6	152.8	163.3	165.7
2 Food Stores	67.5	59.7	62.4	65.3
3 Furniture	88.3	70.9	79.8	81.4
3 Gold Mining	772.7	590.1	611.6	592.1

(Nov. 14, 1936, Cl.—100)	High	Low	Oct. 16	Oct. 23
100 HIGH PRICED STOCKS	91.84	75.27	85.54	88.10
100 LOW PRICED STOCKS	182.86	135.10	157.75	163.98
6 Investment Trusts	71.6	50.0	60.8	64.9
3 Liquor (1927 Cl.—100)	843.5	637.7	711.2	729.8
9 Machinery	179.5	136.8	149.0	156.3
3 Mail Order	125.5	89.8	108.5	111.5
3 Meat Packing	112.7	80.9	81.5	81.2
13 Metals, non-Ferrous	189.1	138.0	169.7	178.3
4 Paper	48.7	34.1	41.4	42.0
25 Petroleum	301.0	199.5	263.3	272.6
19 Public Utilities	124.9	97.8	112.7	115.0
5 Radio (1927 Cl.—100)	30.6	17.8	24.2	25.6
8 Railroad Equipment	67.2	52.9	56.5	58.7
24 Railroads	30.3	20.5	26.7	28.5
3 Realty	27.1	21.1	25.1	26.1
2 Shipbuilding	146.1	102.8	139.8	146.1B
3 Soft Drinks	516.5	321.1	321.1d	346.3
14 Steel & Iron	127.0	96.2	117.7	127.0B
3 Sugar	54.7	44.8	50.2	53.3
2 Sulphur	281.9	206.6	266.4	271.3
5 Textiles	170.4	118.9	151.9	152.3
3 Tires & Rubber	34.5	27.5	33.5	34.5A
6 Tobacco	71.7	62.4	69.9	70.7
2 Variety Stores	327.8	286.9	315.0	319.6
17 Unclassified (1947 Cl.—100)	109.8	90.0	101.4	104.6

New HIGH since: A—1947; B—1946. New LOW since: d—1944; e—1943.

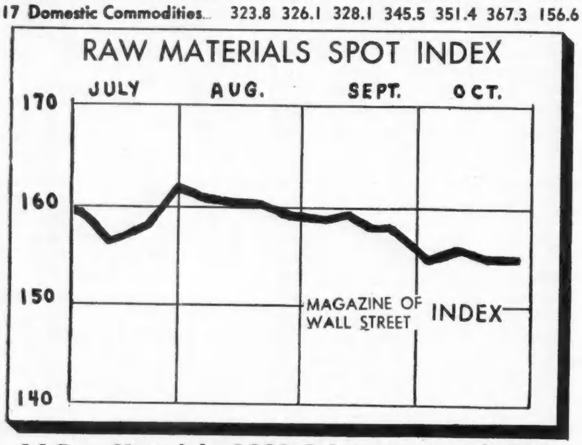
Trend of Commodities

Futures advanced sharply during the past fortnight; but spot prices continued to sag. The M. W. S. index of raw material spot prices was off nearly a point, despite another half cent advance in zinc. With the Government leaving no stone unturned to offset the normal economic effects of bumper crops, there is little doubt that commodity futures indexes have seen their lows for the year. The B. A. E. report on crops in storage as of Oct. 1 was not so sensational as had been expected a few months ago. Wheat in storage is only 1% more than a year ago. Only 126 million bushels of old corn remained in all positions on Oct. 1, smallest carryover in six years; sorghum grain stocks are slightly lower than last year. On the other hand, stocks of rye and oats are largest in 3 years, and barley largest in 5 years. Soybean prices have crashed spectacularly in the cash markets as farmers begin to harvest the record crop of 205 million bushels. Last year 181 million bushels were harvested. The 1935-46 average was only 135 million. The Agriculture Department predicts a world cotton crop of 29.7 million bales this season—17% above last year, and a surplus of 1.7 million. U. S. crop is expected to reach 15 million bales. U. S. wool production is expected to reach a record low of 225 million pounds next year. Wartime peak in 1942 was 388 million pounds. For each of the seven consecutive years since then, we have had to import a progressively increasing quantity of foreign wool. The world's 1947-48 sugar production is estimated at 34.1 million short tons, compared with 31.1 million last year and the 1935-39 average of 34.7 million. U. S. civilians and our armed forces have contracted for so much of this season's Cuban crop that shortage worries have replaced her surplus fears of a few months ago.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

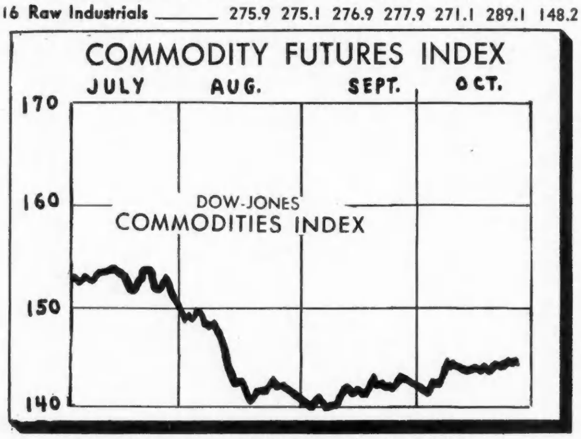
	Date Oct. 25	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	305.2	306.0	307.8	323.4	316.7	343.0	156.9
11 Imported Commodities	278.5	277.4	278.9	292.0	269.8	308.5	157.5
17 Domestic Commodities	323.8	326.1	328.1	345.5	351.4	367.3	156.6
7 Domestic Agriculture	323.1	327.0	331.1	376.0	369.0	392.8	163.9
12 Foodstuffs	354.9	358.9	359.6	398.7	392.0	424.3	169.2
16 Raw Industrials	275.9	275.1	276.9	277.9	271.1	289.1	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	139.83	117.14	93.90	88.45	55.45	46.59	45.03	52.03

The Natural Gas Industry

(*Continued from page* 133)

have raised $305 million of new money, of which 87% came from sale of bonds, 3% from preferred stock and only 10% from common stock. Then two new pipeline companies alone have raised $245 million obtaining over 80% from bonds, 4% from preferred and 16% from equities. He warned that the industry faces an inevitable shakedown later on if economic conditions turn less favorable, and that even if the anticipated high level of revenues and profits is realized, depreciation requirements will demand conservative dividend policies.

Aside from such comments, it is well to realize that low interest rates may tend to swell net earnings, but repayment of principal in large instalments from these earnings could more than offset the advantage. Furthermore, the Federal Power Commission restricts net earnings of the interstate pipelines to 6% on allowable property values. In considering these factors, it is interesting to study the sinking fund provisions of a typical bond issue.

An Example

Take the 3½ first mortgage bonds of Texas Eastern Transmission Corporation, for example, due in 1962 and outstanding in amount of $120 million, though a total of $300 million has been authorized. This owner of the Big and Little Inch pipelines has an inviting vista with firm contracts to supply huge quantities of natural gas from assured sources in Texas to some of the strongest utilities in the East, and proposes to double its capacity. From its sound but restricted earnings base, however, allowance must be made for annual repayments of the bonds at a rate of $6.5 million from November 1950 on, total retirements before the final maturity date aggregating $84,250,000. This is entirely aside from interest charges or allowance for depreciation. In citing these figures we are not attempting to cast a shadow on the earnings potentials of this concern, but merely to point out the magnitude of a problem that conceivably might arise in the unpredictable future. In like manner this applies to many of the other natural gas concerns that have shouldered heavy debts.

Rapidly expanding industrial concerns can hardly be expected to finance their capital needs along a theoretically desirable pattern so long as Government authorities restrict earnings on risk capital to 6% of the property investment. James E. Pew, manager of Sun Oil Company's natural gas division, recently pointed out that this handicap should be removed by legislation, and undoubtedly his contention is soundly based. In support of his premise, he stated that though our proven oil reserves are immense, natural gas reserves are still greater on an equivalent heat basis but are supplying only 13% of the nation's energy needs. About 20% of all natural gas produced domestically goes to waste, he adds, with 400 billion cubic feet in Texas annually coming in this category, although the present price of the gas at the wellhead is about 12% of crude oil on a heat basis. How much the entire economy would benefit by full development of our natural gas resources seems obvious, but private risk capital on an adequate scale can be raised only if the potential reward is made more attractive.

Stable Earnings and Growth

Despite all barriers, however, a number of the older natural gas companies have established an enviable record for stable earnings and substantial growth over a period of years, and their aggressive expansion recently adds speculative attraction to their shares. Included on our appended table are several of these sound concerns. Ever since 1931, for example, El Paso Natural Gas has operated profitably in Texas, New Mexico and Arizona, and now is completing a 1,200 mile 26-inch pipeline to supply California utilities. Earnings of this company, as our table shows, are increasing but financing by senior securities has been substantial.

Sales of Panhandle Eastern Pipeline have tripled in the last ten years as a result of drawing upon 6.5 trillion cubic feet of natural gas reserves owned and the expenditure of more than $80 million for improvements. Net earnings of Panhandle have trended upward, easily covering the $3 per share dividends paid last year, but sinking funds on funded debt now involve about $2.5 million annually.

Lone Star Gas is especially well situated, owning more than 1,300 productive gas wells in Texas and Oklahoma, 5,200 miles of pipeline, and selling its output in the most populous area of Texas. This concern has paid dividends without a break since 1926, distributing a rather liberal share of earnings. Its capitalization is simple and funded debt relatively light, though its planned outlays of $50 million may change the picture somewhat before long.

Gross revenues of Columbia Gas System, formerly Columbia Gas & Electric Corporation, topped $231 million in 1947, compared with $156 million in 1941, and the number of customers served rose above one million. The numerous subsidiaries of this holding company operate in Ohio, Pennsylvania, West Virginia, Kentucky, New York, Virginia and Maryland. Natural gas is produced by Columbia on a large scale throughout the Appalachian area, and the company has contracted for the purchase of huge amounts from East Texas Transmission, Panhandle Eastern Pipeline and the lines of Chicago Corporation when available. The population and industrial areas served by Columbia Gas System are so extensive that its sales potentials are most encouraging.

While its capital structure is nicely balanced, the company's subsidiaries have been borrowing rather liberally and on terms that provide sizable debt retirements annually. To preserve a desirable proportion of common stock in relation to debt, the company registered 1,223,000 shares of new common with the SEC in September, to be offered to stockholders as a means of helping to finance 1949 capital requirements. Confidence in the outlook by the management was expressed by recent declaration of a 15 cents per share extra dividend on the common.

Kennecott Copper Goes Into New Fields

(*Continued from page* 128)

Kennecott, because their published income accounts and balance sheets make no allowance for depletion. During its long history, however, Kennecott has charged off $152 million for depreciation, including almost $48 million since 1940. In calculating

income taxes, the company of course makes full use of deductions allowable for both depletion on a rigid pattern based on 1913 values, and for definite rates of depreciation, but the published balance sheets reflect only the latter item in detail. These bookkeeping practices render estimates of property values difficult.

Moderate Inventory Rise

Although Kennecott's inventories have risen only moderately compared to prewar, despite sharply higher prices, conservative policies have led the company to accumulate contingency reserves now totaling $20 million, equal to 36% of the $54 million inventories carried at the end of last December. What's more, these reserves are all represented by cash in the bank rather than being invested in additional facilities or inventories as has been done by some other concerns. If the inflationary spiral should terminate and copper prices decline, Kennecott has amply provided for such a contingency, indeed so substantially that no increase in its contingency reserve was deemed necessary in 1947.

From an operational aspect Kennecott seems to have been able to maintain wider profit margins than most of the other large copper concerns. Since they all receive the same prices for their output, as a rule this reflects the advantage of low cost operations. For the same reason Kennecott's net profit margins have been eminently satisfactory as our table shows. Operating margins from 1939 through 1944 were fairly stable with an average of about 37%, dipping to 28% in 1945-46 under the impact of prolonged strikes at home and abroad. The sharp rise to a record high of 46.5% in 1947 was mainly due to uninterrupted operations and a steady rise in the price of copper. With another recent boost of 2 cents per pound, this margin may be even further widened in the second half of this year, though an upturn in freight rates, wage costs and material prices may absorb part of the price rise. Unquestionably the current wide operating margins of Kennecott are far above normal and cannot endure for an indefinite period.

Only at rare intervals in past years has Kennecott failed to operate at a profit and in the last 32 years, dividends have been omitted only three times. Net earnings of the company over a long period have rather closely been attuned to volume, except during war years when excess profit taxes took a big toll, or in more recent years when strikes precluded normal profit margins. As our table shows, net earnings averaged $3.95 per share during the last decade and dividends averaged $2.72 per share. This relationship of dividends to net earnings amounted to 69%, far above that of most large concerns in other forms of enterprise.

Kennecott has no regular dividend rate and generally adopts a cautious policy of increasing its distributions as a year unfolds during uncertain periods like the present. Total dividends in 1947 came to $4 per share and thus far in 1948 $3 per share has been paid, including two specials of 50 cents each and another of $1.25 per share in September. Since Kennecott's treasury position is so strong and net earnings this year should at least equal the $8.49 per share reported in 1947, further liberalization of dividends would occasion little surprise.

Looking ahead, the medium term horizon for Kennecott Copper Corporation holds much promise, partly because current domestic demand for the red meal exceeds total domestic supply by a margin of around 50%, and though suspension of tariffs may expand imports, world demand is so heavy that there is small chance of an oversupply in the foreseeable future. Under the circumstances the outlook for continued high copper prices is bright and we have seen how beneficial these have been for Kennecott in conjunction with large metal scales.

Widening Earnings Base

Over the longer term, too, the several steps taken by this company to widen its earnings base offer much encouragement, as we have pointed out. That informed investors recognize the future potentials of the company is shown by a recent price of close to 60 for Kennecott shares, within a fraction of the high of 1948 and about eight points above the 1947 top.

In view of current and foreseeable earnings, and the 6½% dividend yield afforded at present market price, the latter appears as a fairly conservative valuation which should leave room for further market appreciation depending not only on market conditions but also on the fruition of the company's plans for the future.

Earnings so far this year have been slightly in excess of the excellent results of 1947, amounting to $4.46 a share for the first six months compared with $4.26 for the comparable preceding period, and $8.49 for the full year 1947. Net profits of $9 per share for full 1948 seem probable, making the price earnings ratio less than seven to one, a rather modest valuation for a stock of this type.

Government Spending — Key to the Business Outlook

(*Continued from page* 114)

fields cuts could be made, and how much. Since weighty political considerations enter the whole question, the outlook in this respect remains highly uncertain.

Rearmament, whether domestic or lend-lease, raises problems not only of costs but of supplies, and it is here where any pinch will likely come. The very materials which European armies need—steel and copper, for example—are those which European civilian economies also need, and which are already short here because they are required in increasing quantities for our own defense and domestic economy.

Under our own rearmament, as well as under revived lend-lease, heavy industry will get most of the new orders, and industry is already girding for its new role. Concerns in dozens of fields may be affected, including those making planes, trucks, tanks, motorized weapons, heavy artillery, engineering equipment, technical items such as radio, radar and communications equipment, and of course those active in production of new weapons. Since such orders will have priority and moreover involve the use of large amounts of steel, copper and other scarce materials, civilian production will feel the pinch. There may also be sizeable orders for civilian-type goods, particularly for future lend-lease, including uniforms, shoes, office equipment, even for certain foods.

All of which should mean good business for companies manufacturing these things, their components and the needed raw materials; for the steel and nonferrous metal industry, for the automotive and aircraft industry, for the electronics and machine tool industry, for makers of construction equipment such as tractors and bulldozers, for manufacturers of electrical cable and other related supplies.

These potentials will be supplemented by the latest shift in ECA emphasis. The first section of its program covering subsistence items, notably agricultural products, cotton, fertilizer, coal, oil, medical supplies, is now rapidly assuming lesser importance with the start of the second phase which comes closer to the heart of the European recovery problem, and is also likely to have a more direct beneficial effect in American business and regular American export channels. It means greater emphasis on many types of industrial goods for reconstruction and rehabilitation, ranging from steel and steel products to machinery and machine tools. This trend should be apparent very soon. From here on there should be more business from the Marshall Plan for American business!

How ECA Money Was Spent

Just for what items ECA money has so far been authorized is shown in the accompanying table. Future procurement will lean far more heavily on industrial goods.

Civilian output involving the use of steel and scarce metals will hardly escape shortage conditions, a likelihood that points either to curtailment or certain shifts in consumer durable goods output once rearmament is in full swing. Fewer automobiles may be produced, and fewer household appliances and furnishings involving metal, whether ferrous or non-ferrous. Steel for builders may get still scarcer, unless used for priority purposes.

In consumption goods, the impact will be less, perhaps no impact at all, unless produced by manpower shortage. Supplies of textiles, for instance, is large and even some pre-emption for military purposes would hardly shrink it to the point where civilian business would suffer. The same goes for food, for clothing, for oil and oil products, for fats and edible oils, for tobacco, for coal and numerous other consumption or soft goods. In short, the impact of rearming ourselves and Europe will mainly fall on the durable goods industries, to an extent that cannot yet be fully or clearly envisaged except in general terms.

This is another reason why there is hope that, broadly speaking, resultant inflationary tendencies can be cured or minimized, and price correction in many fields continue. Such a prospect admittedly would approach the ideal. Any restriction in durable consumer goods output would naturally channel some additional

(*Continued on page* 151)

For Profit and Income

(*Continued from page* 137)

dependent on residential work and subject to normally sharp competition—as in roofing materials, for instance—are potentially the most vulnerable. Probably the best situated of all are the cement companies, for rising public works will offset any conceivable shrinkage in residential building, so far as they are concerned. The cement supply situation is now one of the tightest in all industry — even tighter than in steel. Earnings are excellent, and rising. Lone Star Cement has always been the best dividend payer. This stock is now around 66. Earnings will be around $7 a share for 1948; the dividend, with extra, should be at least $4 and might be as much as $4.50, providing a yield, at present price, of 6% to 6.8%. Selling around 39, Lehigh Portland Cement also has merit, with earning power now in the vicinity of $5 a share and likely to pay not less than $2 in dividends.

Reminder

What can happen when abnormal demand is filled, even with good general business continuing, is suggested by the third quarter report of Bendix Home Appliances. Both sales and earnings were roughly half what they were in the like period of last year. This is not a matter of competition, but a general condition. Bendix still holds trade leadership. The postwar washers of one of the biggest automobile makers, and of two of the biggest electrical equipment makers — why rub it in by mentioning names?—have not made the expected hit with housewives. Some of the smaller newcomers in this field are now faring so poorly as to raise a question whether it makes much sense for them to stay in it.

Answers to Inquiries

(*Continued from page* 138)

equal to $1.68 per share.

A 4% common stock dividend was distributed on October 28th to holders of record October 18th. Total dividends thus far this year have been 12% in stock and 50 cents in cash.

Operations continue to be satisfactory and the net earnings for the second quarter of current fiscal year are estimated to be about on the same basis as for the first quarter.

Royal Typewriter Company

"Please furnish business volume, profits and dividends of Royal Typewriter Company."

J. S. H., Forest Hills, N. Y.

The Royal Typewriter Company during the fiscal year ended July 31, 1948, sold and delivered nearly 40% more typewriters than during the previous fiscal year. Sales of portable typewriters increased 50% during the year, and at the end of the fiscal period, the company was still unable to make delivery in full quantity on all orders for portables.

Sales and services for 1948 totalled $52,243,604, compared to $37,789,085 in the 1947 fiscal year. In spite of higher costs of doing business, net income was $5,620,336, as compared with $4,013,147 in the 1947 year. The past year's net income was equal to $4.98 per common share after allowing for preferred dividends, as compared with $3.49 per share in 1947.

A strong financial condition was indicated with current assets of $20,797,546 about 3½ times current liabilities of $6,040,896 on July 31, 1948. The increase of $2,277,529 in working capital was used principally to finance larger inventories which the greatly increased sales made necessary. Dividends including extras totalled $2.10 per share thus far this year compared with $1.55 paid in the full year of 1947. Company has put in new machinery and rearranged manufacturing processes to help offset increased costs of doing business. Near term prospects for the company continue favorable.

Northrop Aircraft

"Please furnish information as to order backlog, earnings and financial position of Northrop Aircraft, Inc."

E. T., River Forest, Ill.

Continuing its consistent earnings record, Northrop Aircraft, Inc., showed a net profit of $520,145.77 for the fiscal year ended July 31, 1948. The earnings figure is more than double the $240,573.00 profit listed by Northrop for the preceding year. The new profit represents net earnings of 1.93% on sales and billings of $26,943,787.54. Earnings per share for the 1948 fiscal year amounted to $1.16, compared with $0.54 per share in the preceding year. Dividend payments this year have amounted to 50 cents per share.

The annual report reflected continued strengthening of the company's financial position during the year and listed the firm's backlog of military orders at $96 million at July 31st. This does not include the backlog of the Northrop Aeronautical Institute, a corporate division.

Current assets of the company were listed at $6,739,100, while current liabilities were $2,397,702, leaving a net working capital of $4,341,398. This is an increase of $944,029 in working capital for the twelve-months' period. The ratio of current assets to current liabilities on July 31, 1948, was 2.8 to 1 as compared with 1.9 to 1 on July 31, 1947. The book value per share also showed an increase from $14.63 to $15.04. Net working capital amounted to $9.65 per share.

The analysis of current assets shows 29.13% to be in cash; 52.53% to be accounts receivable from and work in process for the U. S. Government; 7.18% to be accounts receivable from and work in process under sub-contracts which are under U. S. Government's prime contracts held by other contractors; 2.11% to be accounts receivable from and work in process for others and 9.05% to be in materials and supplies.

Bright prospects are seen for the coming year as Northrop is now embarked on what seems likely to be one of the busiest and one of the most productive periods of its peace-time history. The Congress has appropriated sufficient money to start the industry on the aircraft production program which is so essential for national defense. This money is being spent carefully.

U. S. Air Force has selected for production Flying Wing B-49 airplanes, designed and built by this company, and now evaluated on the basis of performance as among the world's most efficient air-

(*Continued on page* 151)

Are Convertibles Now Attractive?

(*Continued from page* 135)

stock at high levels close to an annual rate above $7.50 per share. At 22, therefore, the equities seem very reasonably priced and under more favorable market conditions could appreciate substantally. Investors content with a yield of 3.9% on the convertible preferred pending future appreciation in the common shares that would establish paper profits for holders of the senior stock are now comfortably situated.

Timing is Important

Timing of prospective purchases of the Burlington Mills convertible preferred warrants study of our tables. Since 4 shares of common represent one share of preferred, now that approximate parity levels have been reached, the price of the preferred should advance about one point for every four point move of the common. It did somewhat less than that from the 1947 lows to the 1948 highs. During declining price periods, though, such as that from the 1948 high mark to the September low, the convertible preferred slipped off 16% although the common stock price fell only 22%. In variable manner these same percentage factors are interesting to study in weighing the market action of all the stocks listed on our table. Other things equal, quite a wide choice might be indicated between the shares of one concern and another during falling markets, depending upon shifts in the relation of the convertible preferreds to their common stocks pricewise.

Another high grade convertible is the $4 second preferred of Crown-Zellerbach Corporation, a leading manufacturer of newsprint and other paper. A five point advance in the price of the common would establish parity, with the preferred now selling at 102 and the common at 29. How clearly a premium is being bid for the preferred is shown by its moderate yield of 3.9%, although the higher ranking 4.20% preferred stock of this concern is quoted at 97 to yield about 4¼%.

Earlier this year the common sold above 34 and holders of more than 7,000 shares of the convertible preferred exercised their conversion privilege. First and last 58.1% of the issue had been converted. Additionally the company has started to retire some of this stock by the use of surplus earnings, a point that investors should bear in mind since the stock is redeemable at 102½. In the year ended April 30, 1948, Crown-Zellerbach earned $6.81 per share on the common and thus far in the calendar year has paid $2 per share, indicating room for enhanced dividend liberality, not to mention possible price appreciation. The convertible preferred accordingly has considerable speculative attraction.

On a second appended tabulation we show a few first class convertible bond issues, all selling at par or higher. With one exception the quality of these investments has pushed them rather out of reach pricewise for the average investor, with yields generally under 3%. Institutional investors, though, have been large buyers of them, with an eye on safety as well as potential appreciation due to their convertible features. That their prices are more volatile than those of many other issues is well shown on our tabulation, in comparing their price movements with those of the Dow-Jones 40 Bonds Index.

In conclusion, it is pertinent to point out that many sophisticated investors see no valid reason for including convertible preferreds in their portfolios, particularly in this period of rising interest rates. With considerable justice they claim that the equities of carefully selected strong concerns may be held with confidence almost equal to that accorded to their senior stocks. As the income return on the common stocks is far more satisfactory than on the preferreds and their price advances can be more rapid, these investors find the equities more desirable to hold for either a short or long pull. Whether our readers concur with this viewpoint or not must be left to their individual decisions as determined by their investment objectives.

One of the advantages of convertibles is that once they are selling on an investment basis (yield basis), they tend to resist any decline in the general market. But by the same token, the yield factor in times of rising interest rates may prevent them from proper participation in any market improvement of the related common stock. It is this consideration that accounts in part for the laggard action of some, though by no means all convertible issues during the more recent period. Naturally the nearness and value of the conversion privilege is often a mitigating factor in the equation; hence of paramount interest in the consideration of any convertibles.

Corporate Use of Retained Earnings

(*Continued from page* 117)

been strengthened tremendously, and that the real values behind the stocks of representative companies have been built up correspondingly. Net working capital has more than doubled since 1939.

Plants are enlarged, modernized, and in good physical condition, and carried on the companies' books at depreciated values that are in most cases only a small fraction of present-day replacement costs. The fact that cash is tied up in plants, inventories, and receivables is a favorable sign, meaning that it is at work rather than lying idle in banks.

Dividend payments in the first nine months of 1948 were 15% above 1947. In an article in the September 1948 issue of the Exchange, monthly publication of the New York Stock Exchange, entitled, "Nine-Year Drift of Common Stock Dividend Yields," it is suggested that the high percentage of earnings retained instead of being distributed to shareholders — "causes speculation whether public interest in long-established equities has been more timid this year than the over-all situation warranted. The fact that business has been active and prosperous is generally realized; perhaps too little attention has been paid by aloof investors to the probability that a great part of postwar rehabilitation and extension of plant will be completed this year. Completed and, so far as earnings have been applied, paid for . . . The matter of dividend yields receives first attention; a proposition dealing with what yields might be under easier corporate necessities stands in second place."

Earnings vs. Dividends

It is a timely question of whether the low level of current dividend payments has been overemphasized, and the high level of actual earnings not fully appraised. Perhaps in valuing industrial stocks a new technique should be applied, similar to the standard practice in valuing fire and casualty insurance stocks, wherein a certain arbitrary percentage of the corporate reserves is added to capital and stated surplus in computing the book value of shareholders' equity. This is based upon the principle that, in the ordinary course of events, such reserves will be distributed as dividends.

Mention was made above of the paradox of good business causing poor dividends. The reverse paradox is not only possible, but probable, of poor business causing good dividends. When business activity recedes, there is rapid liquidation of working assets (inventories and receivables) into cash. At the same time, the curtailment of plant expenditures, together with the continued charges for depreciation (involving no cash outlay) also result in building up cash.

This means more cash available for dividend payments. Moreover, the general and special reserves already set up will help to take care of routine or unexpected losses.

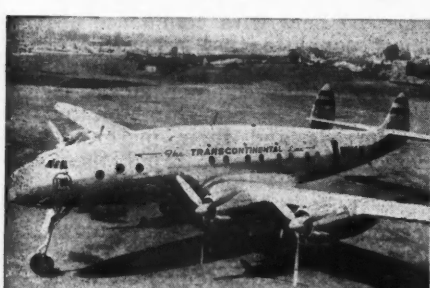
Finally, when a business slump is developing, corporate directors often feel that declaration of higher dividends may be warranted as helping to maintain the market values of the shareholders' investment. Between 1929 and 1930, for example, when the combined net income of all U. S. corporations dropped by 83%, total dividend payments declined by only 5%.

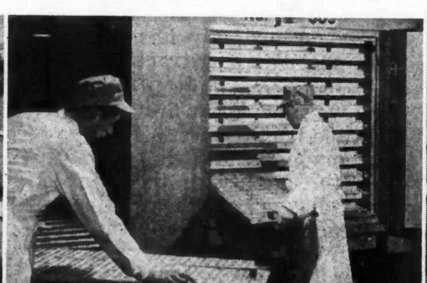
Argentina's Losing Battle for Power

(*Continued from page* 125)

districts. The value of exports, insofar as they have been reported, is impressive. However, below the surface the situation is not so good.

In the first place, the money supply (see table) continues to expand steadily, largely as a result of Government spending. The direct Government expenditures and the spending of some 81 decentralized Government departments and organizations (such as the IAPI), which finance themselves out of their own resources, is now exceeding half of the national income. With the imports of consumer goods (chiefly semi-luxury items) declining, people have nothing to spend money on. There is much speculation in real estate and foreign exchanges. Since the future is uncertain and taxes rising, the wealthier people are seeking to transfer their





wealth abroad. This flight of capital has created problems for the neighboring republic Uruguay.

Prices and costs continue to rise. Argentine industries would be in a difficult position insofar as foreign competition is concerned if it was not for Government protection policies. Except for food which is plentiful and still relatively cheap, the wages of the average Argentine worker buy but a fraction of what they used to buy. Up to now, the promises of a better future and of a mighty Argentina have kept the workers in line—but once it becomes obvious that Peronista Argentina cannot make good its promises, anything may happen.

In conclusion this could be said: Argentina is at a crossroads. A way out of the present situation lies in meeting the United States half way regarding the issues of reasonable prices, the unfreezing of payments for past imports, the jettisoning of a portion of the Five-Year Plan, and the reduction of armament expenditures. If this solution should fail, then Argentina has to tighten economic controls, trade more with Europe, and perhaps eventually declare herself bankrupt. That would involve a drastic devaluation of the peso, and would unquestionably be followed by social and political disturbances.

A Note On Uruguay

Unlike its big neighbor, Uruguay has managed its affairs extremely well. It has employed extreme care as to the expenditure of the wartime accumulated gold and dollars. The result is that, although only one-eighth as large as Argentina, it actually has more gold and dollars (nearly $260 million as of last July). A careful scrutiny of all applications for dollar payments has been necessary also for other reasons. Uruguay has become a sort of Latin American Switzerland—a haven for refugee capital from Argentina and Brazil. Wealthy Argentinos for some time have been transferring their bank balances to Montevideo. However, the chances for investment in Uruguay are limited (and the country is too near to Peronista agents), hence the balances now in Uruguay are pressing for transfer to New York and Switzerland.

As the exporter of much the same products as Argentina, Uruguay is also worried that a drastic revaluation of the Argentina peso would take business away from her. There are indications that Uruguay would likewise devalue her currency in case Argentine peso should be lowered further.

Answers to Inquiries

(*Continued from page* 148)

planes. Other military aircraft of advanced design and other U. S. Airforce projects related to aviation, particularly in the fields of guided missiles and new-type turbine engines, place Northrop Aircraft in a favorable position to be called on for further work in the U. S. Defense program. The company's backlog of orders includes contracts for 30 Flying Wing B-49 eight-jet bombers and 23 three-engined C-125 Raider assault transports. The company is also working on some experimental planes which are expected to produce further government contracts.

Rheem Manufacturing Co.

"Please advise what products are produced by Rheem Mfg. Co., recent earnings and dividends."

H. D., New Haven, Conn.

Rheem Manufacturing Co. for the third quarter of 1948 reported a 6% gain in net sales and a 45% gain in net earnings over the corresponding quarter of 1947. For the third quarter of 1948, net sales were $15,741,000 and net earnings were $915,686, equal after preferred dividends, to ,88 cents per common share. This compares with net sales of $14,793,000, net earnings of $628,680 and common per share earnings of 60 cents for the 1947 third quarter.

For the first nine months of 1948, net sales were $43,404,000 and net earnings were $2,490,597, equal after preferred dividends, to $2.40 per common share. For the corresponding period of 1947, net sales were $44,593,000, net earnings $2,693,604 and $2.60 was earned per common share.

Rheem Manufacturing Co. is the world's largest manufacturer of water heaters for all fuels and steel shipping containers. In addition it manufactures soft water appliances and a full line of heating equipment for gas, oil and coal. Dividends in the first three quarters of the current year totaled $1.20 per share.

Government Spending — Key to the Business Outlook

(*Continued from page* 147)

purchasing power into soft goods, enhancing their market potentials. In view of this, there is no room for excessive bearishness on the price outlook in these fields.

There are other areas where Government spending will help support business, and particularly prices. Take the matter of farm price supports, which will force the Treasury to divert large sums into the farmers' hands. Farm income and purchasing power will be supported accordingly. The situation in metals continues strong, but should it weaken, the Government will give support also, through purchases under the stockpiling program.

Most observers expect business spending, particularly on plant, to decline next year. Again an offset is present, in the prospect of greater spending by state and local governments, on highways and public works.

Thus altogether, though time and steadily rising production are bringing stabilizing forces into play, any analysis of the outlook must also take account of the inflationary forces and their supporting effects. Existence of the supports mentioned warrants the conclusion that complacence with

respect to inflationary pressures is hardly justified. Although sentiment and events recently have swung to the deflationary side, there is no assurance that they will not swing the other way again. Moreover, the belief that the boom must end in violent collapse should be carefully examined in the light of the supports mentioned. Historical experience argues against stabilization at levels reached during a boom, or even approximately so. But there are no precedents for a situation in which Government props come into play, partly automatically, on any indication of a recession.

But neither can all this point to a road of lasting stabilization and genuine economic progress. Necessary as armament and foreign aid is, they are a drain on our living standards, for they take labor and materials away from the production of goods which would raise living standards. These and other supports prop business as long as they last, and obviously they cannot last forever, but whether paid for by taxes or inflation, the cost is heavy and the ultimate effect in promoting boom and depression is certainly not negligible.

Limit of Peace-Time Economy

Thus far American rearmament and foreign aid have been supported by the surplus of our peacetime economy, though not without creating tightness of supply in various directions. Without controls and without rationing, but only at a high level of taxation and considerable inflation, our economy is providing some $20

BOOK REVIEWS

THE RUBBER INDUSTRY

By P. T. Bauer

Rubber, one of the world's leading raw materials, is of strategic importance to the economy of both war and peace. At the same time, the excessive instability of the rubber industry presents a crucial problem in regulation. Mr. Bauer here presents an authoritative study of the structure, the techniques, the economics, the history, and the prospects of the rubber industry from 1929 to the present. He gives a detailed discussion and a critical evalution of perhaps the most powerful and certainly the most important of all raw material control schemes —that of the International Rubber Regulation Committee. He includes valuable data on the monopolistic practices which eventuated in the critical wartime rubber shortage. He reviews the rise of synthetic rubber and the principal aspects of future competition between it and natural rubber, and studies the present position and future prospects of the industry as a whole. His book, which amounts to a case study in competition and monoply, will not only be of value to those concerned with rubber but will also find a wide range of readers among those interested in politics and economics.

Harvard University Press $7.50

DICTIONARY OF MODERN ECONOMICS

Prepared with the advice and cooperation of leading American economists, this dictionary is an invaluable handbook for college students, businessmen, writers, and, in deed, all who are concerned with economic affairs.

In short, this Dictionary is a short-cut through the jungle of theories, propositions, generalizations, legalisms, and professional gobbledygook which has sprung up in recent years.

The first book of its sort since the publication of Palgrave's *Dictionary of Political Economy* in 1894, this indispensable guide is virtually as up to date as today's newspaper and almost as comprehensive as an encyclopedia.

Public Affairs Press $5.00

THE NEW MEN OF POWER

By C. Wright Mills

NOT SINCE *The Managerial Revolution* has there appeared a book on American economic life so fresh, so hard-hitting, and so iconoclastic as *The New Men of Power*. It is a study, a collective portrait, of the newest economic and political elite in the United States —the top leadership of American labor. Solidly based on intensive personal research and the latest polling techniques, it gives the facts about our labor leaders—who they are, what they think, what they want to do to and for America. And it sets these facts in a brilliant analysis of the dynamics of American economic and political life—the stresses and strains of our war-boom-slump economy. Dr. Mills's approach is radical in the best American tradition of radicalism. Sympathetic with the general cause of labor, he is highly critical of many aspects of labor leadership. And he subjects to a searching and caustic analysis the Bourbonism of the conservatives, the opportunistic maneuvering of the Communists, and the spinelessness of the liberal rhetoric.

Harcourt Brace $3.50

THE MOST-FAVORED-NATION CLAUSE

By Richard C. Snyder

The most-favored-nation clause, which looms large in the tariff history of this country, stipulates that a nation bind itself to grant to another nation tariff terms at least no worse than it grants to any nation. Its application, and even its interpretation, varies widely in actual practice; and here, in the first book devoted in its entirety to the subject, Professor Snyder has analyzed it in full. After three preliminary chapters on the nature of the clause itself, there follow chapters presenting a definition, classification, and analysis of forms; an analysis of limitations and exceptions; and finally an evalution and criticism of the clause. The heart of the work is based on treaties negotiated in the interwar period, and which the author uses as a bridge from the so-called "classical" view of the clause to a new definition and classification. The student of political science will find here the most complete and compact analysis of the most-favored-nation clause in English.

Kings Crown Press $2.75

GOVERNMENTAL COSTS AND TAX LEVELS

By Lewis H. Kimmel

What is the cost of government likely to be in the early 1950's? What level of taxes will be necessary to meet the indicated expenditures? How will state and local tax needs compare with those of the federal government? Can the present insistent demands for tax reduction be reconciled with the essential requirement of fiscal stability?

These and similar problems are considered in this study.

Brookings Institute $2.50

billion worth of goods and services over and above what we are consuming domestically. This is just about the limit of what can be provided in a peacetime economy. American industry in the aggregate is turning out about all that the supply of labor and materials will permit.

Any substantial boosts in the armaments program, additional outlays for European lend-lease and for assistance to China, thus are bound to result in increasing economic strain, quite apart from budgetary strain. Yet needless to say, they will play a significant role in the business outlook over the next year, not only by keeping inflation going but by cushioning recession wherever such trends have been making an appearance.

Changing U.S. Industrial Map

(*Continued from page* 119)

The element of decentralization has been a factor in industrial migration since the end of the war. On a geographic basis, according to a recent study by the National Industrial Conference Board, most new plants established for this reason have been located in the South and West. Makers of chemicals, drugs, pharmaceuticals, rubber products and small electrical appliances have tended to favor decentralization more than many other industries. In contrast, steel, heavy machinery and petroleum refinery have tended to centralize for reasons involving co-ordination and heavy initial expense.

Proximity to new markets, improved labor relations, access to raw materials and re-allotment of managerial responsibility usually motivate decentralization. The study made by the NICB covered 148 concerns and found that more than half of them have already decentralized to some extent and the new facilities were mainly located in cities with populations from 10,000 to 100,000. In addition, 28% of the concerns reporting had definite plans for future decentralization.

Concentration of numerous big plants in areas subject to relatively easy attack in case of war, especially if they are likely to be engaged in the production of military essentials, has been the subject of deep study by the National Security Resources Board. Consideration of this hazard has already resulted in the shifting of the huge plants of Chance-Vought Aircraft Corporation, subsidiary of United Aircraft, from Connecticut to Texas, and similar moves may come about as other concerns take action.

The NSRB, though, has recently taken a view that removal of facilities to distant inland locations may not be the best answer to the problem. Rather do they suggest that scattering of plants from congested districts to a point not less than five or ten miles away might be equally desirable. Here they might find relative safety from atomic bombing at least, for the high cost of this destructive weapon would preclude its use except where its effects could be felt over a concentrated industrial area within a radius of a few miles. While defense factors may influence industrial migration to some extent henceforth, economic rather than military reasons may carry most weight, that is as to distant shifts.

Population Changes

	1940 July 1,	1948 July 1,	% 1940-48 Change,
TOTAL U. S.	131,954,000	146,116,000	+10.7
Me.	847,000	987,000	+ 5.9
N. H.	492,000	556,000	+13.0
Vt.	360,000	378,000	+ 5.0
Mass.	4,309,000	4,727,000	+ 9.7
R. I.	711,000	745,000	+ 4.8
Conn.	1,708,000	2,013,000	+17.9
N. Y.	13,460,000	14,374,000	+ 6.8
N. J.	4,154,000	4,736,000	+14.0
Pa.	9,931,000	10,704,000	+ 7.8
Ohio	6,905,000	7,774,000	+12.6
Ind.	3,437,000	3,906,000	+13.6
Ill.	7,892,000	8,746,000	+10.8
Mich.	5,278,000	6,219,000	+17.8
Wis.	3,141,000	3,315,000	+ 5.5
Minn.	2,800,000	2,917,000	+ 4.2
Ia.	2,542,000	2,597,000	+ 2.2
Mo.	3,797,000	3,946,000	+ 3.9
N. Dak.	638,000	542,000	—15.0
S. Dak.	639,000	600,000	— 6.1
Nebr.	1,315,000	1,285,000	— 2.3
Kans.	1,798,000	1,967,000	+ 9.4
Del.	269,000	297,000	+10.4
Md.	1,835,000	2,177,000	+18.6
D. C.	679,000	878,000	+29.3
Va.	2,721,000	3,038,000	+11.7
W. Va.	1,913,000	1,910,000	— 0.2
N. C.	3,584,000	3,721,000	+ 3.8
S. C.	1,894,000	1,976,000	+ 4.3
Ga.	3,108,000	3,148,000	+ 1.3
Fla.	1,914,000	2,409,000	+25.9
Ky.	2,856,000	2,810,000	— 1.6
Tenn.	2,933,000	3,144,000	+ 7.2
Ala.	2,825,000	2,847,000	+ 0.8
Miss.	2,183,000	2,120,000	— 2.9
Ark.	1,950,000	1,919,000	— 1.6
La.	2,366,000	2,571,000	+ 8.7
Okla.	2,321,000	2,271,000	— 2.2
Tex.	6,426,000	7,226,000	+12.4
Mont.	560,000	492,000	—12.1
Ida.	529,000	523,000	— 1.1
Wyo.	255,000	262,000	+ 2.7
Colo.	1,136,000	1,162,000	+ 2.3
N. Mex.	536,000	562,000	+ 4.9
Ariz.	506,000	683,000	+35.0
Utah	555,000	650,000	+17.1
Nev.	112,000	144,000	+28.6
Wash.	1,752,000	2,454,000	+40.1
Ore.	1,102,000	1,649,000	+49.6
Calif.	6,980,000	10,129,000	+45.1

It may be possible that the Federal Trade Commission's edict banning basing point price methods will encourage considerable relocation of concerns using steel. One large parts manufacturer has indicated that it may move from Ohio to Pittsburgh in order to gain lower freight rates on the f.o.b. basis now in vogue. On the other hand the heavy capital investment and other handicaps characteristic in the steel industry will probably check any urge it may have to move nearer to customers. Development by United States Steel of the formerly Government owned steel plants in Provo, Utah and a major expansion in its California subsidiaries, along with large scale expansion by the Kaiser interests in the Far West, should help to deter many steel consumers from relocating to avoid heavy freight rates.

Considerable time must elapse before heavy goods industries of any description change locations on a substantial scale; meanwhile

it is quite possible that Congress may pass legislation restoring the basing point system. Congressional committees are now ready to conduct hearings on this important subject. Of more immediate effect upon industrial migration, perhaps, are recent technological improvements in steel making that may stimulate construction of new plants in more than one direction.

Republic Steel Corporation recently announced that it has placed in actual operation the first unit of a plant that employs continuous casting methods, thus effecting substantial cost savings in construction and operation. If this new process lives up to expectations, as now seems certain, new steel mills may be located in New England, the South or wherever demand is strong and the production of durable goods is likely to expand. This, too, requires time for ultimate realization.

All said, it is apparent that the industrial map is undergoing steady and significant changes due to population shifts, though the process is not quite as speedy as the figures might suggest. But since people create purchasing power and this supports every form of enterprise, the ebb and flow of migration in various sections provides at least one good yardstick for industrial migration.

Factors in Growth

In the long run the demand for consumer goods rather than capital equipment, along with the element of service jobs, is apt to count significantly in realizing the growth of various districts at the expense of others. This is well shown by current conditions in California where manufacturing jobs are less plentiful than during the war, and yet service jobs, Government and municipal employment have taken up a lot of slack despite the record gain in population. At that, as the labor supply has now outstripped demand in this state, unemployment would be serious except for the boom, and further immigration is being discouraged unless jobs are secured in advance. We cite this because trends established thus far in every sector may level off or reverse as time passes, depending upon new factors constantly forming to change the picture.

Market Forecasting Good Business

(*Continued from page* 111)

will come about, but the altered climate and the over-all strength of the economic position provide at least a conceivable basis for it. Rarely have corporate earnings been evaluated more conservatively in the market than they are today. In them, and in good dividend yields, there is plenty for rising stock prices to feed on — if confidence can be recaptured.

Our current thinking centers on watching for a propitious chance to employ reserve funds, rather than on doing more selling. We do not recommend any general expansion of stockholdings, however, at this writing.

—Monday, November 1

Trend of Events

(*Continued from page* 108)

to reason that there are definite limits in either respect although the practical potentials of the second alternative are far from exhausted. As to the first alternative, no Government-financed export boom can spell lasting prosperity; any attempt at perpetuation would be an extremely costly experiment doomed beforehand to ultimate failure.

In a sense, our rising imports testify to the economic improvement abroad brought about by our postwar aid; without such aid, revival of commercial intercourse would have been much slower.

As I See It!

(*Continued from page* 109)

government could win the people's support, its fortunes would soon change. If not, the civil war will be lost and communism will have overrun another huge area from which it will be difficult to dislodge. The global struggle against communism will then have suffered a most serious setback.

LETTER FROM GROSVENOR SQUARE

By John Gilbert Winant

With the same quiet sincerity and warmth, Winant now tells his own story of the year before Pearl Harbor—that year of which most Americans know so little and of which he knows so much. When he came to London in February, 1941, Churchill and his Cabinet promised him: "You shall share our secrets." Through his hands passed all the communications between Roosevelt and Churchill, and over and over again he records by how narrow a margin disaster was averted in the terrible days after the fall of France.

As Ambassador, his chief concern was not only immediate agreement and understanding between the two countries, but also long-term good relations. In the account of his stewardship, he not only shows our generosity but stresses the less known but not less important contributions which the British made to us through reverse Lend-Lease.

H. M. Co. $3.00

THE SOUTH AMERICAN HANDBOOK

is the indispensable annual guide and book of reference to the countries, products, trade and resources of Cuba, Mexico, Central and South America. It is the business man's reference book, traveller's guide, investor's informate, statesman's encyclopedia, student's manual, and the prospective settler's vade mecum.

Trade & Travel $1.50

BOOK REVIEWS

THE BOARD OF DIRECTORS IN SMALL CORPORATIONS

By Myles L. Mace

This study examines the extent to which boards of directors can provide useful sources of management assistance for the chief operating executives of small and growing enterprises.

Harvard Business School $2.00

MANUAL OF PRACTICAL OFFICE SHORT CUTS

Compiled from tested ideas submitted by members of the National Office Management Association

Here is an invaluable collection of 625 proven practices and procedures for streamlining office routine. Covering the important, everyday functions of the modern organization, this manual supplies details on many refinements for increasing the effectiveness of departmental operations and of executive control—from practical hints in filing and typing, to improved practices of inventory control—from specimen work simplification forms, to scientific tests for the selection of personnel—etc. In bringing them together in this convenient form, the book—through ample, to-the-point descriptions—plus more than 100 drawings and photographs of records, forms, equipment, and miscellaneous gadgets—makes crystal clear how each idea can be applied with profit in your own company's various departments.

McGraw-Hill $3.50

THROUGH RUSSIA'S BACK DOOR

By Richard E. Lauterbach

In addition to giving an intimate view of an unknown frontier region and a lively picture of the Russians as individual men and women, Mr. Lauterbach pauses to consider the reasons for the seemingly unbridgable gap between the Soviets and ourselves. Whose is the responsibility? What can be done? He advocates an approach to the peace which is neither "tough" nor "soft," but is based upon a common understanding between people who are more alike than different. Here is a vivid narrative and a considered evalution which is as entertaining as it is provocative.

Harper $2.75

WILL DOLLARS SAVE THE WORLD?

By Henry Hazlitt

Here is an illuminating forecast of the future, and a startling one. It is sober in tone, thoroughly informed, clearly thought out, and brilliantly written. For the crucial importance of its subject matter, no less than the cogency of its analysis, it is a book no thinking person should miss.

Appleton-Century $1.50

EARLY DAYS OF OIL

By John A. Mather

No other industry has a comparable pictorial record of its beginnings. How many pictures Mather took is not known, but in the Titusville fire and flood of 1892 he lost over 16,000 negatives. Fortunately about 3,000 were saved and today are preserved in the Drake Museum. From this priceless collection, the author has selected 365 of the most representative pictures, supplementing them with a few others drawn from contemporary sources. The pictures are accompanied by captions and brief descriptive notes.

The scope of *Early Days of Oil* is broad and includes many pictures illustrating life on Oil Creek. Though of special interest to oil men, the book will appeal to everyone interested in one of the most colorful eras in American history, especially modern photographers, who will be fascinated by Mather's work.

Princeton $6.00

THE LOCATION OF ECONOMIC ACTIVITY

By Edgar M. Hoover

This new book presents an organized body of principles relating to the spatial relations of economic activities. The approach and much of the content are entirely new. The book is primarily analytical rather than descriptive, devoting particular attention to problems of locational change and adjustment, and to objectives, methods, and implications of policies of public control.

In general, the book develops ideas on the selection of locations for private and public facilities, land utilization, metropolitan and regional planning, and programs of industrial development and stabilization at local, state, regional, and national levels.

McGraw-Hill $3.75

INCOME, EMPLOYMENT AND PUBLIC POLICY

Essays in Honor of Alvin H. Hansen
Norton Publishing

The essays contained in this book are the work of Professor Hansen's students at Harvard and other close associates. They are written and assembled here to honor his sixtieth birthday. Appropriately, they are concerned with the various important aspects of the business cycle and economic policy, the related fields in which Professor Hansen has done his great work. Together they constitute a significant contribution to modern political economy. The contributors to this volume are some of the most brilliant younger economists of the present day.

LOOKING AHEAD FIFTY YEARS

By Roger Babson

Few men are as well qualified as Roger W. Babson to write prophetically about the kind of world we may be living in a few years hence. In the field of business forecasting, to which he has devoted most of his life, he has achieved world-fame. Today his analyses guide the actions of thousands of successful business leaders and his teaching the destinies of future business leaders through Babson Institute, Webber College and Utopia College.

In this revised edition of the book which has won an enthusiastic following since its original publication in 1942, he projects new forecasts on the basis of recent developments in fields of business, science, government and world affairs.

Harper $2.50

OF FLIGHT AND LIFE

By Charles A. Lindbergh

The personality and insight of a unique individual — one whose experience of flight and of life has been unique —give a strange force and significance to this little book in which an airman, who is also a student of science, attempts to clarify the crisis the world faces, to communicate with men and women of similar concern, to search for a solution. The flight of his thought, in these pages, is like that flight of his, so many years ago, across the lonely wastes of the Atlantic. It is as solitary and as daring.

Charles Scribner's Sons $1.50

THE AMERICAN POLITICAL TRADITION

By Richard Hofstadter

This is a study of men and ideas in American politics, from the Founding Fathers to F. D. R., and an explanation of our national nostalgia for our past. It is unorthodox it will outrage many people; but no one will deny the authority of its arguments, the happy disenchantment of its mood, or the edged and sparkling irony of its style. The myths of history cast no spell on Mr. Hofstadter, so that he has been free to write a book noteworthy for its original interpretation of our chief political tradition and for its shrewd insight into the public character of our major statesmen.

Knopf $4.00